FINANCIAL TIMES

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Société Générale in Paribas deal

Agreed all-share takeover bid valued at $17bn

By Samer Iskandar in Paris

Société Générale, France's largest listed bank, has launched an agreed all-share takeover bid for Paribas, the fifth largest, which values Paribas at €15bn ($17bn). The merged bank, to be called SG Paribas, will be the world's fourth largest bank in terms of shareholders' equity and the third largest in Europe, with a market value of more than €30bn.

The takeover is expected to set off further bids in the overcrowded French banking sectors. Leaders of the new SG Paribas indicated they intended to be involved in that process.

Mr André Lévy Lang, Paribas chairman and future chairman and chief executive of the merged group, said SG Paribas would be interested in acquiring a stake in Crédit Lyonnais, which is due to be privatised before the end of June. SocGen said it would drop its legal challenge to state aid received by Crédit Lyonnais.

The takeover was immediately welcomed by the French government, which is actively promoting consolidation as a way of improving the international competitiveness of the country's banking sector.

The banks said their decision was partly motivated by "rapid technological innovations and increasing mergers in the sector".

"A few days after the birth of the euro, SG Paribas becomes a leading player in a number of businesses," said Mr Lévy Lang.

Bank shares had mixed reactions on the Paris bourse yesterday, as market participants weighed the implications of the deal. Those of Banque Nationale de Paris rose 10 per cent immediately after the announcement on speculation it was likely to be the next French bank involved in a bid. BNP had approached Paribas unsuccessfully on at least one recent occasion. Paribas shares closed at €78, down 2.4 per cent.

Analysts said the SG Paribas merger stepped up the pressure on BNP to forge an alliance with another bank.

With FFr4,920bn (€750.6bn) in total assets, the future SG Paribas is set to overtake Switzerland's Credit Suisse group to be Europe's third largest bank by this measure. It will be just behind Germany's Deutsche Bank, which is taking over Bankers Trust of the US, and UBS of Switzerland.

SG Paribas will have Europe's largest portfolio of industrial investments, valued at €12bn. With more than €200bn of assets under management, the group said it would be one of Europe's 10 largest institutional fund managers, and the world's sixth custodian with more than €500bn of securities held in custody for clients.

The merger will take the form of a share exchange, with SocGen offering five of its shares for eight Paribas shares. This values Paribas at €15bn, a 17 per cent premium over its average price last month.

Mr Lévy Lang will head the group until his retirement in November 2002 at age 65, when Daniel Bouton, 48, the current SocGen chairman, will take over.

Jacques Chirac, the French president, welcomed the deal, saying French banks needed to "get together and become stronger to face international competition".

The banks said they aimed to achieve return on equity of 15 per cent compared with less than the 11.5 per cent that was the average of the two banks in 1998. They also set a target for growth in annual net earnings per share in excess of 15 per cent.

Europe's top 10 banks

	Assets (€bn)	Market Cap ($bn)
UBS*	630	69.55
Deutsche Bank*	536	38.50
SG Paribas*	500	33.77
Credit Suisse	426	42.61
Hypovereins	416	22.11
HSBC	400	70.26
ABN Amro	379	28.61
Dresdner	346	19.68
Barclays	332	33.78
BNP	310	17.46

Sources: Salomon Smith Barney; Reuter *Proforma

Unlikely pairing, Page 24; Better late than never, Page 19; Observer, Page 19; Lex, Page 20; BBV profits, Page 21

WORLD NEWS

Kurdish leader vanishes after Dutch rejection

Abdullah Ocalan, the fugitive Kurdish guerrilla leader wanted by Turkey, tried fly to the Netherlands yesterday, was denied permission to land and then apparently vanished. Turkey's foreign ministry said: "We expect all European countries to immediately determine the place where this individual is hiding to escape from justice, and to hand him over". **Europe, Page 2**

Russian plan will miss IMF targets
Prime minister Yevgeny Primakov finished work on Russia's latest economic plan, which does not meet objectives set out by the International Monetary Fund for release of new financial aid. **Europe, Page 3**

Green light for Strasbourg link
The French government has approved a new high-speed rail link between Paris and Strasbourg on the eastern border with Germany. **Europe, Page 3**

Islamic leader starts hunger strike
Sheikh Ahmed Yassin, leader of the Hamas militant Islamic movement, said he had begun a hunger strike to protest at the detention of political prisoners in Palestinian Authority jails.

Iranians mark revolution
Crowds gathered at the shrine of Iran's late spiritual leader Ayatollah Ruhollah Khomeini to mark 20 years since the Islamic revolution.

Saddam offers cash bounty
Iraqi air defence troops who shoot down hostile aircraft are in line for a $14,000 bounty under orders from President Saddam Hussein. **International, Page 6**

Explosion rocks US Ford plant
An explosion and fire rocked a generating station for Ford Motor's big Ford Rouge plant in Michigan, injuring more than a dozen people, some seriously.

Nigerian aid move prepared
Western governments and lenders are preparing a conditional $1.5bn for the civilian government due to take office in Nigeria in May. It aims to avert a potentially destabilising economic crisis. **International, Page 6**

Lawyers advise on conflicts
Lawyers are advising UK financial organisations to review how they build and maintain "Chinese walls" following a landmark judgment on managing conflicts of interest. **UK, Page 10**

Thai censure motions fail
The Thai government defeated censure motions brought against three senior ministers but remained under pressure to deliver quickly on promises of economic recovery. **Asia, Page 4**

US and India closer to deal
India and the US are moving towards an agreement under which Delhi would sign the Comprehensive Test Ban Treaty provided economic sanctions are lifted first. **Asia, Page 4**

Parents blamed over antibiotics
Parents who demand antibiotics for their children even when doctors think the drugs unnecessary are a large factor in the growing overuse of such medicines, say Boston University School of Medicine researchers.

BUSINESS NEWS

European economies weaken as US stages recovery

European manufacturing continues to shrink, in contrast to the US where manufacturers are staging a recovery at home and abroad, surveys show. The figures also show that deflation within Europe may soon become apparent. **Page 20 and Lex**

Neopost, Europe's largest maker of mailroom equipment, is to list on the Paris stock exchange in an initial public offering that will value the company at about €600m ($684m). **European companies, Page 24**

The Real's rapid slide against the dollar was halted by optimism that the Brazilian government would agree a revised emergency financing deal with the International Monetary Fund. **American news, Page 8; Editorial comment, Page 18**

National Grid, UK electricity transmissions group, announced the agreed purchase of Eastern Utilities Associates in the US for $634m. **Companies and finance, Page 21**

Exxel, Argentine private equity fund, and French retailer Promodès are to form Argentina's biggest supermarket chain with the purchase of the privately owned Casa Tía chain for $630m. **Latin American companies, Page 22**

Banco Bilbao Vizcaya of Spain reported record annual profits and said it was in the market for a merger. **Companies and finance, Page 21**

Stinnes, German freight haulage company, announced plans to create Europe's largest transport and logistics group by launching a SKr3.3bn ($423m) bid for Swedish transport company BTL. **European companies, Page 24**

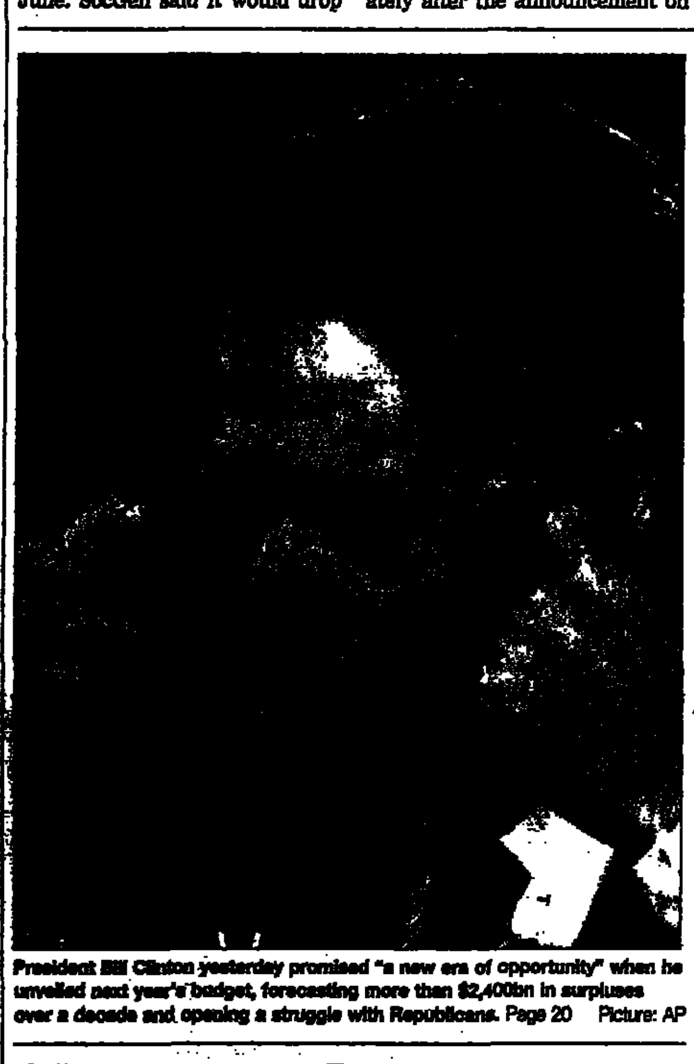
AT&T announced a joint venture with Time Warner, one of two companies that dominate the US cable television business, that will enable it to reach 29m American homes. **Companies and markets, Page 21**

Pohang Iron & Steel chairman Yoo Sang-boo criticised his predecessor at the South Korean steelmaker for making poor investments, which, Mr Yoo said, could "pose obstacles for a smooth privatisation" of the group. **Asia-Pacific companies, Page 26**

Charles Schwab, largest online stockbroker, lifted margin requirements for 23 heavily traded internet stocks, but reported that trading in some of the stocks continued to increase from already hectic levels. **Companies and finance, Page 21**

Televicentro, holding company of Grupo Televisa, Mexico's largest broadcaster, said it had agreed with creditor banks on the restructuring of $1.27bn of debt. **Latin American companies, Page 22**

Euro Prices
A comprehensive statistical guide to the euro currency zone, covering foreign exchange, bond and equity markets. **Page 29**



President Bill Clinton yesterday promised "a new era of opportunity" when he unveiled next year's budget, forecasting more than $2,400bn in surpluses over a decade and opening a struggle with Republicans. Page 20 Picture: AP

Euro beats dollar in bond market trade in first month

Analysts question whether new currency can sustain lead

By Edward Luce, Capital Markets Editor

The euro has pushed the dollar into second place in international bond markets in its first month of trading.

Since its launch, the euro has been the currency of choice for half of all new international bond issues, with a value equivalent of $69.3bn. The dollar took 40 per cent ($55.7bn) of the total.

Analysts have warned that the euro's share of international borrowing would probably fall back, but the challenge to the dollar's supremacy would not fade away.

"If you judge by the bond markets, we are now in a dual currency world," said Simon Meadows, global head of debt syndication at CSFB.

The next most popular currency was sterling, with a share of less than five per cent. The yen barely registered, according to Capital Data BondWare.

The euro was also more popular than its 'legacy' currencies used to be. The proportion of bonds issued in all 11 euro "legacy" currencies ran at between 30 and 35 per cent in recent years.

The euro has capitalised on enthusiasm of European pension and insurance funds for new types of bond, including offerings from European companies. Dozens of assets managers, including Credit Suisse Asset Management and Rothschild Asset Management, have launched dedicated funds for euro-denominated corporate bonds.

A number of European companies, such as Olivetti, the Italian telecoms firm; Energie, the Austrian utility; Carrefour, the French supermarket chain; Abbey National, the British bank, and Benetton, the Italian fashion company, have either issued bonds in euros in the last three weeks or plan to do so.

"If you look at who has borrowed in euros, it goes right across the spectrum from banks and companies to governments," said Roger Bates, head of the Deutsche Bank's Emu project team in London.

However, bankers say that the euro's share of the international debt markets is likely to drop slightly to take account of the fact that many borrowers wanted to make a splash in the currency's first month of existence.

"A lot of borrowers wanted to be the first to establish a new benchmark and attract publicity," said David Munves, credit market strategist at Lehman brothers.

"However, the euro has achieved parity with the US dollar in the bond markets."

Bankers say that the euro's flying start has been aided by the fact that long-term interest rates in the euro-zone are lower than those in the dollar market.

This makes it cheaper for companies and banks to price fixed-rate issues against German government bonds, where the 10-year yield is 3.69 per cent, rather than against US Treasury bonds, where the yield on the 10-year benchmark is 4.7 per cent.

The euro's popularity has been aided by the recent weakness of the US dollar against the Japanese yen owing to the widening US current account deficit and the rise in Japanese bond yields.

In addition many Asian and especially Japanese investors have been selling dollar holdings to free up funds for purchases of the euro.

Investors embrace euro, Page 21
Bonds, Page 30

Kosovo plan set to remove Serb powers

By Guy Dinmore in Belgrade

The draft peace plan for Kosovo effectively removes the Serbian government's authority over the province, according to copies circulating in Belgrade.

The plan gives sweeping powers to the head of the new international monitoring mission, including the right to remove and appoint officials in the administration and judiciary.

The monitoring mission, run by the Organisation for Security and Co-operation in Europe (OSCE), will also supervise elections in Kosovo within nine months and set up its own broadcasting network.

The six-nation Contact Group is expected to present the peace plan to the warring parties at a meeting in France later this week. The tough demands reflect the international community's frustration with the year-old conflict and lack of progress after months of shuttle diplomacy.

Javier Solana, Nato secretary general, warned yesterday that this was "a last opportunity to reach peace in Kosovo". He reiterated he had authorisation to order air strikes if no agreement was reached in talks, intended to start on February 6 and continue for no more than two weeks.

The head of the monitoring mission is William Walker, a senior US envoy declared persona non grata by Belgrade last month. The Serbian authorities later suspended the order.

Both France and Britain have said they are prepared to deploy troops to underpin any peace deal and the US has indicated it could consult Congress about a possible role for US troops.

Neither the separatist Kosovo Liberation Army (KLA) nor Belgrade have yet responded formally to the summons to peace talks but diplomats expressed confidence they would be dragged to the negotiating table.

The status of Kosovo is not defined under the plan, but for an interim period of three years the territory, with its overwhelmingly ethnic Albanian majority, will be granted "a high degree of self-governance". The Kosovo government will have the option of holding posts in the governments of Serbia and the federal republic of Yugoslavia.

Reacting to the draft settlement, Serbian officials objected in private to the extent of autonomy proposed for Kosovo and the sweeping powers vested in the Kosovo Verification Mission (KVM) headed by Mr Walker.

According to a copy of the draft plan, seen by the Financial Times and published in part by Serbian media, the head of KVM will supervise implementation of the agreement and, for an undefined transitional period, have the power to shut down existing institutions.

WORLD MARKETS

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	9,358.50	(+24.97)
NASDAQ Composite	2,515.98	(+10.09)
Europe and Far East		
CAC40	4,303.52	(+62.12)
DAX	5,190.82	(+80.56)
FTSE 100	6,012.4	(+116.4)
FTSE Eurotop 300	1,232.33	(+17.43)
Nikkei	14,465.16	(-84.07)
US LUNCHTIME RATES		
Federal Funds	4.875%	
3-mth Treas Bills: Yld	4.519%	
Long Bond	101	
Yield	5.183%	
OTHER RATES		
UK: 3-mo Interbank	[illegible]%	([illegible]%)
UK: 10 yr Gilt	136.05	(136.03)
BBA Euribor	3⅛%	(3⅛%)
Germany: 10 yr Bund	108.07	(108.01)
Japan: 10 yr JGB	98.155	(98.108)
NORTH SEA OIL (Argus)		
Brent Dated	$10.96	(11.32)

GOLD		
New York Comex		
(Feb)	$288.2	(288.3)
London	$287.85	(286.25)
DOLLAR		
New York lunchtime		
£	1.6409	
€	0.8654	
SFr	1.4227	
Y	114.925	
London		
£	1.6405	(1.6478)
€	0.8648	(0.8606)
SFr	1.4234	(1.4193)
Y	115.110	(116.28)
Tokyo Close		Y 115.445
EURO (London)		
$	1.1565	(1.1418)
£	0.6991	(0.6929)
Y	130.128	(132.706)
SFr	1.6091	(1.6114)

Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.200	Iceland	Ikr265	Oman	OR1.75
Belgium	BFr90(€2.23)	Italy	L3800(€2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320(€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	DKr18.00	Latvia	Ls1.05	South Africa	R15
Estonia	EKr34.00	Lithuania	Lit21.00	Spain	Pta325(€1.95)
Finland	FmK13.00(€2.19)	Lebanon	LBP3,500	Sweden	SKr20.00
France	FFr14.00(€2.13)	Luxembourg	LFr90(€2.23)	Switzerland	SFr3.50
Gibraltar	£0.85	Morocco	Dh19.00	Syria	S£90.00
Greece	Dr600	Netherlands	Fl 4.90(€2.15)	Tunisia	Din2.000
Hungary	Ft300	Norway	NKr18.00	UAE	Dh12.00

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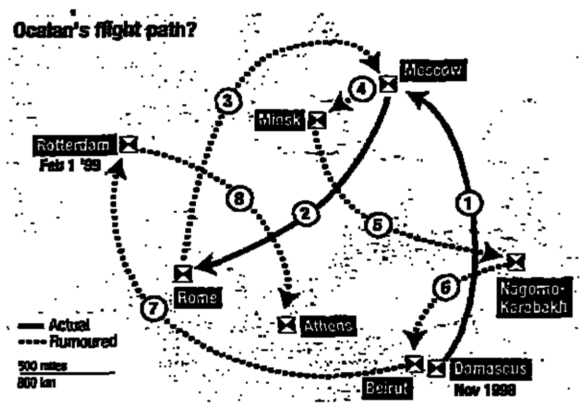
EUROPE

Ocalan's location proves mysterious

By David Buchan in London, Leyla Boulton in Ankara and James Blitz in Rome



The whereabouts of one of the world's most unwanted men – Abdullah Ocalan – were again unclear last night after an aeroplane carrying the fugitive Kurdish guerrilla leader tried to land in the Netherlands, was denied permission and then apparently vanished into thin air again.

By the end of the day, Turkey, the only country that wants Mr Ocalan, in order to try him on terrorist charges, was claiming the Kurdish leader had landed in Athens, where Dutch radio had reported he was headed. But the Greek government denied this, saying Mr Ocalan would not be welcome.

Some 200 Kurds gathered early yesterday at Rotterdam airfield on rumours of their leader's arrival, but were disappointed when Dutch air control refused to let Mr Ocalan's private aeroplane land because it had not filed a proper flight plan. Britta Boehler, Mr Ocalan's Dutch lawyer, said Mr Ocalan had wanted to take the Kurdish dispute with Turkey to the Permanent Court of Arbitration in The Hague. She said she had no idea where Mr Ocalan's aircraft was headed thereafter.

However, alarmed that Italy might be his destination again, the Italian government yesterday ordered its secret services to board and search a number of aircraft at airports across Italy. Mr Ocalan triggered a diplomatic crisis in Italy's relations with Turkey and Germany last November when he arrived in Rome. Eventually, angry with Germany for refusing to demand Mr Ocalan's extradition, and embarrassed by Turkey's demand for his extradition, the Italian authorities were delighted to see Mr Ocalan slip out of their country on January 16.

Where the Kurd then went is as much of a guess as where he is now. Many reports said he went back in mid-January to Russia, where Mr Ocalan went last October after he was expelled by Syria, his long-time haunt, under Turkish pressure. From Russia, where his presence was denied, he was rumoured to have gone on to the Caucasus or Lebanon. Turkey has warned that it would regard any country harbouring Mr Ocalan as committing a hostile act.

Bülent Ecevit, Turkey's caretaker prime minister, yesterday signalled his satisfaction at the fact that "Ocalan is wandering from country to country, trying to find an open door".

He said that "it was now understood that opening your door to Apo [Turkey's nickname for its most wanted man] means becoming an accomplice to terrorism".

CDU man in high-risk gamble

For an election candidate to focus on dual nationality is tempting, but it is making party members angry, writes Ralph Atkins

Roland Koch's speech in the local church hall in the Frankfurt suburb of Sulzbach starts with a familiar target: "Are you happy with the financial policies of Oskar Lafontaine [Germany's finance minister]?" he demands.

After a while, Mr Koch, candidate for the right-of-centre Christian Democratic Union (CDU) in Sunday's Hesse state election, moves to a still greater "threat": the federal government's plans to sanction "dual nationality" for many of the 7m foreigners living in Germany. "Very quickly," he warns, "the exception would become the norm".

But the questions afterwards are largely about jobs and Germany's competitiveness. As Mr Koch leaves, only 19 of the 70-strong audience have signed the petition against dual nationality promoted by the CDU.

Despite the bruising first 100 days in Bonn of Chancellor Gerhard Schröder's Social Democratic/Green party government, Mr Koch is not making headway in Hesse's elections.

A Polis poll in Focus magazine suggests the SPD would add three percentage points to the 38 per cent won in 1995 and consolidate its eight-year-old local coalition with the Greens in the state government.

Mr Koch's focus on dual nationality as the single most important issue is not only upsetting the churches and colleagues in the CDU. It has also made Hans Eichel, Hesse's prime minister – best known as an expert on tax policy – seem something of a statesman, defending the moral integrity of the state which houses Germany's financial district and the European Central Bank.

A strong result on Sunday would be a considerable boost for Mr Schröder, who acknowledges that his first 100 days, which have included rows over nuclear power and a confrontation with industry over tax policy, have been bumpy.

It would also raise questions about the effectiveness of the CDU as an opposition party, still traumatised by its ejection from federal office last autumn after 16 years under Chancellor Helmut Kohl. Ahead this year lie six more state elections and the European elections in June.

In Hesse's SPD, a keen sense of optimism prevails. Volker Halsch, the local parliamentary manager, says the so-called "false start" by the Bonn government "was made a lot of by the media.

"It had less effect on the population. People gave the government a lot of trust. You have to look at what has actually come out of Bonn. A lot of campaign promises have been kept. That's rather positive."

Even Hesse's Greens seem unabashed by setbacks at the Bonn level – including retreats by Jürgen Trittin, the Green environment minister, on the timetable for Germany's withdrawal from nuclear power. "It wasn't what we dreamt of," admits Priska Hinz, the local Green's leader and Hesse's environment minister.

"But atomic policy needs a lot of time and work to push through. When opposition parties [in Bonn] come into government after 16 years, there's bound to be friction, and problems reaching agreements. The voters are much calmer than we are."

"Red-green" in Hesse has proved a stable combination, though a dispute over expanding Frankfurt airport is rapidly growing into a divisive issue which could bog down post-election coalition talks.

Mr Koch admits many voters are still prepared to give the new Bonn government some credit. In addition, the CDU "is not in ideal shape, four months after a federal election": it has yet to reformulate its economic policy to win back voters.

Thus the focus on dual nationality is tempting. It has demonstrated, says Mr Koch, "that the CDU is still capable of mobilising and fighting". Already, 200,000 signatures have been collected in Hesse. It has given Mr Koch, one of the CDU's younger leaders, a high national profile.

He says the argument is about finding the best way of integrating foreigners. He dismisses suggestions he is harming Frankfurt's reputation as an international financial location. "Nobody is agitated that if I went to New York I'd never have a chance of US nationality without giving up my German citizenship."

But it is a high-risk strategy. Ruth Wagner, chair of the Hesse Free Democratic Party, the CDU's most natural coalition allies in federal or state government, warns the CDU runs the risk of encouraging extremists. "I've seen people coming up to CDU stands and asking: 'Where can I sign up for "foreigners out"?' We can't have that."

She is reconciled to her party remaining out of office, the opposition forces divided. The fallout from Bonn politics has yet to materialise. "The media think it was a false start but the voters don't. Yet. Perhaps in a year they will."

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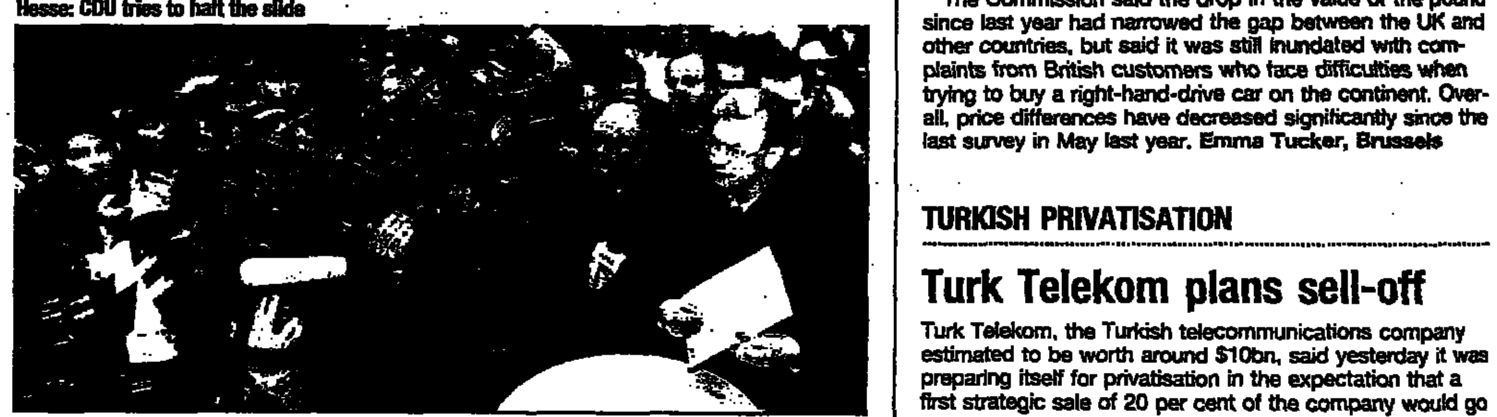
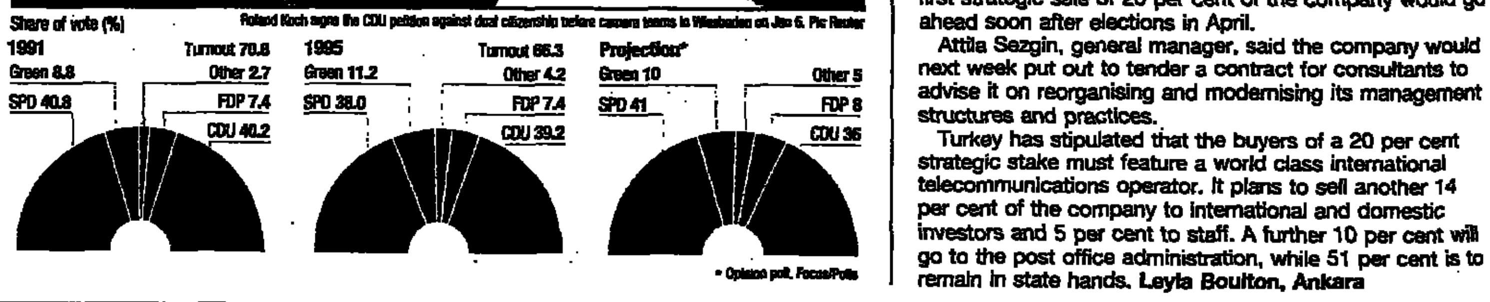
Hesse: CDU tries to halt the slide



Roland Koch signs the CDU petition against dual citizenship before camera teams in Wiesbaden on Jan 6. Pic Reuter



* Opinion poll, Focus/Polis

Transparency shapes up as main challenge

ECB watch

By Tony Barber in Frankfurt

The degree to which unelected European Union institutions should be open and accountable is shaping up as one of the EU's biggest challenges of the year. It was visible last month in the attempt by the European parliament to assert its power against the unelected but relatively strong European Commission.

The issue is equally important for the European Central Bank, which is discovering to its discomfort that it is attracting accusations of secretiveness and lofty disregard of public opinion.

In these early days of the euro, critics are concentrating their fire on the ECB's refusal to publish the minutes of its Governing Council's meetings.

The council's control of monetary policy affects the well-being of millions of people and businesses in the 11-nation euro-zone and even beyond. Surely, the argument runs, businessmen and voters have a right to be informed about how the 17-member council reaches a decision to raise, lower or leave unchanged euro-zone interest rates.

Last week, the ECB gave its most trenchant response so far, in the form of a speech by Otmar Issing, the bank's redoubtable chief economist.

"You could imagine live broadcasts of all Governing Council meetings, committee meetings, perhaps including ...all words uttered in the corridors of power. George Orwell in reverse, if you will... Would such complete openness really enhance the general public's (and even the specialists') understanding of monetary policy?"

Mr Issing's strongest argument was that, since the ECB has a strictly limited mandate, it should be held accountable for fulfilling that, and nothing else. Powerful though it is, the ECB is not the central banking equivalent of Thomas Hobbes' Leviathan. Nor does it have an obligation to eliminate unemployment, raise living standards or produce rabbits out of hats.

Economic indicators for euro-11 countries

	Dec 1998	Nov 1998	Oct 98	Sep 98	Aug 98	Jul 98	97	96
Inflation (annual % change)	0.8	0.9	1.0	1.0	1.2	1.4	1.6†	2.2†
Unemployment (%)	n/a	10.8	10.8	10.9	11.0	11.0	11.6	11.6
Trade (Ecu bn)								
Exports	n/a	n/a	68.7	65.6	56.1	72.4	760.8	667.7
Imports	n/a	n/a	61.1	60.3	49.6	58.9	671.4	594.2
Trade balance	n/a	n/a	7.5	5.2	6.5	13.5	89.4	73.5
Current account (Ecu bn)	Q3 1998		Q2 98	Q1 98		Q4 97		Q3 97
Current account balance	21.5		25.0	12.4		28.6		26.0
As % of GDP	1.5		1.7	0.9		2.0		1.9
Industrial production (%) (3 mo over previous 3 mo)	Aug-Oct/ May-Jul		Jul-Sep/ Apr-Jun	Jun-Aug/ Mar-May		May-Jul/ Feb-Apr	1997	1996
	0.6		0.7	0.8		0.9	4.1††	0.0††
GDP growth (%)	Q3 1998		Q2 98	Q1 98		Q4 97	97	96
Over same quarter last year	2.7		2.8	3.6		3.1	2.5	1.6
Money supply	Nov 1998		Oct 98	Sep 98	Aug 98	Jul 98		Jun 98
M3 Annual growth rate (%)	4.5		5.0	4.5	4.5	5.0		5.3

* provisional ** estimated † estimated due to Ireland, for which quarterly index numbers for 1995 and 1996 were used to estimate the monthly ones †† annual % change
Source: Eurostat

NEWS DIGEST

EURO-ZONE

M3 money supply growth sees slight upturn

Euro-zone M3 money supply growth, an indicator which the European Central Bank uses to determine its interest rate policy, rose at an annual rate of 4.7 per cent in the three months to December, the ECB said yesterday.

The rate of increase is slightly higher than the reference value of 4.5 per cent which the ECB has said it would like to see in 1999, the first year of the euro's existence. Analysts said the rate of growth, though by no means alarming, might reduce the chances of an interest rate cut on Thursday, when the ECB's governing council holds its next meeting. The ECB's main refinancing rate stands at present at 3 per cent.

Jean-Claude Trichet, Bank of France governor and ECB governing council member, said last weekend that M3 growth was running "at a pace we consider appropriate," but that growth in the narrower M1 money supply measure was running at about 9 per cent. Tony Barber, Frankfurt

TRADER ARRESTED IN STOCKHOLM

Share fraud hits bank

MeritaNordbanken, the largest bank in the Nordic region, yesterday said a rogue trader in its Swedish stockbroking arm had defrauded the Finnish-Swedish bank of SKr290m ($37m).

The share fraud, one of the largest to hit a Scandinavian lender in recent years, involved the alleged short selling of shares. Under the scheme, the broker, who has not been named, used fictitious sell notes from institutional clients of MeritaNordbanken in order to sell stock in the hope of buying it back more cheaply at a later date and taking the profit. Police in Stockholm arrested the trader yesterday morning. Although he has not been formally charged, he has been detained on suspicion of "serious breach of faith and serious embezzlement".

"This the largest internal fraud uncovered for years," said Jussi Laitinen, executive vice president of Nordbanken Markets, the bank's Stockholm-based equity trading business. Mr Laitinen emphasised that none of the bank's clients had incurred any loss, while the bank itself was insured against fraud. Tim Burt, Stockholm

CAR PRICES

Netherlands 'best for bargains'

UK consumers should buy their cars abroad, according to the latest European Commission survey of car prices in the EU – and preferably in the Netherlands.

Of Europe's 76 best-selling models, 57 are more expensive in the UK than elsewhere. The Netherlands is the best place for bargains, followed by Spain, Portugal and Sweden.

The Commission said the drop in the value of the pound since last year had narrowed the gap between the UK and other countries, but said it was still inundated with complaints from British customers who face difficulties when trying to buy a right-hand-drive car on the continent. Overall, price differences have decreased significantly since the last survey in May last year. Emma Tucker, Brussels

TURKISH PRIVATISATION

Turk Telekom plans sell-off

Turk Telekom, the Turkish telecommunications company estimated to be worth around $10bn, said yesterday it was preparing itself for privatisation in the expectation that a first strategic sale of 20 per cent of the company would go ahead soon after elections in April.

Attila Sezgin, general manager, said the company would next week put out to tender a contract for consultants to advise it on reorganising and modernising its management structures and practices.

Turkey has stipulated that the buyers of a 20 per cent strategic stake must feature a world class international telecommunications operator. It plans to sell another 14 per cent of the company to international and domestic investors and 5 per cent to staff. A further 10 per cent will go to the post office administration, while 51 per cent is to remain in state hands. Leyla Boulton, Ankara

Copyright law set to spark showdown

By Emma Tucker in Brussels

The European Commission is heading for a showdown with the European Parliament over proposals to harmonise copyright law across the single market.

The Commission believes parliamentary amendments to the copyright directive, which strengthen protection for artistic works distributed electronically, would place intolerable burdens on telecoms operators and could even jeopardise the development of the internet.

The European Union's executive plans to reject a number of the amendments, which were tabled by an influential parliamentary committee two weeks ago and expected to be adopted by the full parliament next week.

But its decision – to be agreed at a meeting today – will increase tensions with the parliament at an already fraught time. The parliament, which last month voted narrowly against sacking the Commission for alleged fraud and mismanagement, is in no mood to see its wishes snubbed by the Brussels executive, which still has the sole power to initiate legislation.

The Commission's position has also enraged the powerful recording industry, which lobbied the parliament hard in order to tighten copyright protection for music and other forms of art distributed on the internet.

The directive aims to harmonise EU copyright law in the digital era so that material protected by copyright does not encounter obstacles when flowing from one EU country to another.

The original Commission proposal sought to maintain a balance between the rights holders, worried about piracy of digitally transmitted material, and the telecoms operators that distribute the works.

The most hotly contested amendment concerns temporary copying – incidental copies of music or films that are made in passing as data flows across the internet. The Commission proposal said such copies – which are dictated by technology and which have no separate economic significance of their own – should not be covered by copyright law. However, one of the parliament's amendments would modify the proposal so that such copies would only be exempted from copyright law where their distribution was authorised by the rights holder.

Mario Monti, the single market commissioner in charge of the directive, believes this would place a straitjacket on internet operators as it would require them to monitor all the information that passed across their networks.

AEROSPACE INDUSTRY GERMANY STILL WANTS CONSOLIDATION DESPITE BAe/GEC DEAL

European defence unity urged

By Alexander Nicoll and Ralph Atkins in Bonn

Germany strongly believes in the creation of a united European aerospace and defence company (EADC) in spite of last month's all-British deal between British Aerospace and General Electric Company, the German aerospace minister said yesterday.

"The EADC is an important aim for the industry and we should stick to this aim," Siegmar Mosdorf, government co-ordinator for aerospace in the federal economics ministry, said in an interview with the Financial Times. The EADC was part of giving Europe a stronger identity in foreign and security policy, he said.

Mr Mosdorf also stressed the urgency of turning the Airbus Industrie consortium into a single corporate entity in order to compete with Boeing of the US. "Time is money," he said, estimating Boeing would recover from its recent production problems within two years.

But he feared both the Airbus and EADC processes may have been set back by at least two years as a result of BAe's decision to buy the Marconi defence arm of GEC. BAe had been negotiating separately on a merger with DaimlerChrysler Aerospace (Dasa) of Germany, which has called the BAe/GEC deal an obstacle to European integration.

Mr Mosdorf said the delay could occur because France, which is in the midst of privatising its aerospace and defence companies, may want to integrate them in an attempt to match the size of BAe/Marconi, Mr Mosdorf said.

An EADC had to be a "merger among equals". Mr Mosdorf said. It was necessary to find a formula for a balanced partnership in which it would not be possible for the interests of any country to be out-voted – though he insisted this did not mean a right of veto for any participating company.

Mr Mosdorf is proposing to other European industry ministers that they adopt at a meeting in Rome this summer a detailed plan leading towards creation of an EADC.

As a test of willingness of industry to co-operate across Europe, he is also suggesting that the timetable of summer air shows be revamped to give Berlin's equal billing with those at Paris and Farnborough. He suggests the three events rotate year by year.

The Farnborough and Paris air shows alternate – this year it is the turn of Paris. The Berlin show, which is on a smaller scale, takes place every two years in the same year as Farnborough. The Society of British Aerospace Companies, which stages Farnborough, said it had rejected previous suggestions because there was demand from industry to hold its show every two years.

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RUSSIAN ECONOMY POLICIES UNLIKELY TO SECURE AID

IMF sees Moscow plan fall short

By Andrew Jack in Moscow

The Russian government yesterday completed a new economic plan which falls short of objectives set out by the International Monetary Fund for release of new financial aid.

Yevgeny Primakov, the prime minister, yesterday completed work on a document of about 40 pages detailing a range of budgetary and fiscal objectives drafted in response to requests from the IMF.

However, the policies and targets it outlines – which have been circulated in draft form over the last few days – are believed to fail to meet some of the previous assurances tentatively agreed by top negotiators on both sides just before Christmas.

The document has been prepared against the backdrop of negotiations in Moscow between the government and a high-level mission of IMF officials from its Washington headquarters. The talks come to an end this week.

The Russian government desperately needs support from the IMF to help close its budget deficit, revive its flagging economy and pave the way for loans from a number of individual countries and international organisations.

It has so far held inflation below the levels feared by many analysts, and has attempted to introduce a tough budget to stabilise its economy.

The measures have been matched by high-level international diplomacy in an effort to win new support, including talks efforts at the World Economic Forum in Davos last week between Mr Primakov and Al Gore, US vice-president.

On Russian television on Sunday evening, Mr Primakov admitted that the government could not meet the objectives requested by the IMF for the 1999 budget. But he stressed the version approved by parliament last Friday had a a budget surplus ahead of debt servicing costs for the first time in Russian history.

Absent from the latest proposals were measures to deal with the restructuring of the country's banking sector, which was crippled by the August financial crisis. Other elements criticised by the IMF include the threat to block pipeline access to energy groups refusing to supply oil to domestic refineries that do not pay their bills.

There is also a lack of detail or any precise timetable for proposals that the government has made concerning privatisations, the reform of monopolies and changes to competition policy.

The proposals cite optimistic forecasts about domestic economic recovery which are being interpreted with considerable scepticism.

Mr Primakov said on Sunday that the current exchange rate of $22.50 to the rouble – roughly the level set for the entire year in the 1999 budget – "should be lower" and was only so high because of "psychological pressure".

Before the August crisis, it stood at $6 to the rouble.

'Russia should adopt euro to escape crisis'

By Peter Norman in Brussels

Russia should adopt the euro, Europe's new single currency, to escape its grave economic and social crisis, according to Michael Emerson, a former European Union ambassador in Moscow.

Mr Emerson, ambassador until 1996 and now a senior research fellow at the Brussels-based Centre for European Policy Studies (Ceps) and the London School of Economics, said Russia should follow the example of Argentina, which last month said it was considering abolishing its peso in favour of the dollar, and make the euro legal tender.

A "euro-isation" of the Russian economy would give the financial system new, healthy foundations and hold out hope of restoring Russia's capacity to service its debts. At present, Russia is unable to raise finance because it must pay an interest rate premium of 51 percentage points.

Mr Emerson will present his idea at a Ceps conference this week shortly before a planned summit of the EU and Russia in Moscow on February 18.

Vladimir Mau, director of the Russian government's Working Centre for Economic Reform, said such a scheme might be theoretically attractive but was politically impossible. "I have a dream that at some point the dollar and the euro will join forces in one single world currency and that Russia will adopt the dolleuro," he said with heavy irony. "I think this scheme is no less realistic than for Russia to give up its own currency and join the euro."

Mr Emerson acknowledged that the European Central Bank would almost certainly be hostile to Russia adopting the euro unilaterally. But he argued that a wider euro area was certain to develop and embrace countries such as Bosnia, Bulgaria and Estonia which already tied their currencies to the eurozone through D-Mark currency boards.

European pension fund plan coolly received

By Jane Martinson, Investment Correspondent

Plans to set up a ground-breaking pan-European pension fund have foundered as multinational companies have shied away from fighting national tax authorities and arguments have emerged over the right approach to use.

Organisers of the Pan-European Pension Association (Pepa), formed last June, have been forced to reimburse 12 companies which had expressed initial interest in its proposals to bring a test case on the issue eventually to the European Court of Justice.

Robin Ellison, head of pensions at Eversheds law firm and one of the founders of the group, said he was disappointed with the failure of the association. But he said its formation had prompted a more positive attitude in the European Commission to the issue. "The mere formation of this association has influenced the political climate regarding the formation of pan-European pension funds," he said.

Mario Monti, the single market commissioner, who had expressed support for Pepa, put the issue of pan-European funds on the agenda of a high-level Taxation Policy Group of senior national ministers last year.

Pepa had initially attracted interest from multinational companies keen to challenge the current system, which makes pan-European funds unworkable because of national tax reliefs and the costly bureaucracy required.

An ad-hoc committee was formed, including Zeneca, the UK-based pharmaceutical company, and Kvaerner, the Anglo-Norwegian engineering group. The corporate activity of those involved – from takeovers to restructuring – is understood not to have helped its pensions executives gain backing for the legal challenge.

One of them said that the association was also hampered by a growing belief that confrontation over the issue could be harmful to the companies involved. Mr Ellison said: "Maybe it is better to let national governments sort it out rather than get into head-to-head conflict with the fiscal authorities."

Pepa also suffered from a failure to garner much support from companies based outside the UK and US. Continental European pension funds expressed disquiet over the litigious nature of the association.

Mr Ellison said the failure of Pepa to attract enough support could be a setback for the early creation of pan-European pension funds. But he added that the Pepa committee, which had collected between £30,000 and £40,000 ($50,000-$65,000), would meet again in six months to consider action if proposals by the European Commission did not seem adequate.

Strasbourg and Paris to get fast train link

By Robert Graham in Paris

The French government has approved a new high-speed rail link between Paris and Strasbourg on the eastern border with Germany, which would almost halve travel time to just over two hours.

Most of the rail line will be completed by 2006 at a cost of FFr20.5bn (€3.12bn, $3.62bn) and will allow time savings with routes to other EU centres, including Paris-Frankfurt and Paris-Zurich.

The first studies for connecting the French capital with Strasbourg – seat of the European parliament – were made 10 years ago. But successive governments have always favoured other projects as being more viable for the fast TGV trains.

The socialist-led government of Lionel Jospin decided to go ahead with the project last year but failed to resolve squabbles among the regions over financing. At the same time the European Union raised questions about its proposed contribution towards the construction. The line's cost is estimated at FFr67m per kilometre.

However, late last week differences were finally resolved and the exact route finalised. The line will be some 30km longer than originally envisaged and FFr2.5bn more costly. The part approved covers 320km from Paris, via Vaires-sur-Marne to Baudrecourt, where it will then join the traditional track for the remainder of the journey to Strasbourg.

The original aim was to lay high-speed track right through to Strasbourg, cutting the journey to one hour 47 minutes against the two hours 19 minutes agreed on Friday.

The government will fund FFr8bn of the total cost, although nothing will be disbursed until the 2000 budget. The EU has agreed to fund a further FFr2.1bn. The Duchy of Luxembourg will provide FFr700,000, as Paris-Luxembourg travel time should be reduced to three hours.

The transport ministry says the trains will be the fastest in the country with top speeds of 320km/h.

Until now Alstom, the Franco-British group, has been the TGV provider in France but the transport ministry says the contract for the Paris-Strasbourg link will be put to tender.

Over the past 20 years almost 1,300km of high-speed track has been laid in France.

While passenger traffic has picked up rapidly, growing 11 per cent in 1998, successive governments have justified the TGV primarily on socio-economic grounds and the fare structure has reflected this.

With the state-run railways, SNCF, split into an operating company and a track, there is now pressure to pay more for the use of the track.

Within 18 months the full Paris-Marseilles link will be operational, putting this Mediterranean port within three hours of the French capital.

Mother Russia opens arms to Belarus – who will be next?

Reunification agreement has sparked fears of chain reaction among former Soviet republics, writes **Charles Clover**

On a wintry day in December 1991 in a cottage in the western forest of the Belarus Soviet Socialist Republic, three men gathered to put an end to the 70-year-old Soviet Union.

What Stanislav Shushkevich, then chairman of the Belarus parliament, remembers most vividly about the other two – Boris Yeltsin, president of the Russian republic, and Leonid Kravchuk, chairman of Ukraine's parliament – is their motives.

"Yeltsin at that time was a democrat, a man of principles," reminisced Mr Shushkevich. Thinking it over he added: "Yeltsin also wanted to get rid of [Mikhail] Gorbachev [general secretary of the USSR] by getting rid of the USSR."

Mr Kravchuk had been elected president of Ukraine a week before in a referendum that simultaneously declared Ukraine independent from the Soviet Union.

"For Kravchuk," remembered Mr Shushkevich, "the main thing was the referendum."

As for himself, Mr Shushkevich may or may not have harboured political ambitions similar to Mr Yeltsin's and Mr Kravchuk's, in addition to wanting to see his native Belarus independent for the first time in centuries.

But on that day, the three men's tangled objectives coalesced into the Belovezhskaya accord, formally abolishing the USSR.

Soon after, the three men flew back to their capitals to victorious welcomes. However, things started to change.

Mr Shushkevich and Mr Kravchuk have since been voted out of office in favour of candidates who campaigned for closer ties to Russia. And at the end of last year came the culmination of the process of undoing nearly everything that Mr Shushkevich had done for his country.

On December 25 Mr Yeltsin met Mr Shushkevich's successor as president of Belarus, Alexander Lukashenko, and signed four agreements, according to which Belarus and Russia are scheduled to be re-unified by the end of 1999.

Does Mr Shushkevich feel that Yeltsin betrayed him? "Yeltsin's problem is very familiar," he said ruefully. "Anyone who stays too long in the Kremlin develops the Kremlin disease."

There are concerns, meanwhile, that the Belarus-Russia unification could affect more countries, even touch off a chain reaction among other former Soviet republics, whose economies have performed badly since independence from the USSR. Ukraine's gross domestic product, for example, has fallen by 60 per cent since 1991.

In Ukraine, for example, parliamentary speaker Alexander Tkachenko last week called the prospective union between Belarus and Russia "the start of a very promising path" which, he implied, might include Ukraine.

"For Ukraine, the seven year path from Belovezha has turned out to be seven big steps downwards," he said, calling for "Slavic unity and brotherhood".

And on January 14 Mr Tkachenko proposed that Ukraine join the Russia-dominated inter-parliamentary assembly of the Commonwealth of Independent States, a suggestion which provoked a bench-clearing brawl between communists and nationalist deputies in the chamber. Mr Tkachenko has scheduled another vote on the topic tomorrow.

Campaigns for Ukraine's presidential elections in October are just getting into full swing and are likely, just as they did in 1994, to emphasise the Russified east, which is far more populous than the west of the country, and where unification is popular.

"We are expecting the issue of unification to dominate Ukraine's political scene the rest of this year," said a western diplomat in Kiev.

And while both Mr Shushkevich and Mr Kravchuk were voted out of power for their nationalist leanings, the wily Boris Yeltsin, who had used the disintegration of the USSR to further his political career in 1991, was able to reverse direction and hold on to power, this time by leading the charge in the other direction.

In 1996, for example, when he faced a tough election battle against Communist Gennady Zyuganov, Mr Yeltsin was able to outflank his opponent when he travelled again to Belarus, this time to meet Mr Shushkevich's nemesis, Mr Lukashenko, and sign the first of the agreements endorsing further integration of the two countries.

And the crash of the Russian rouble in August last year and simultaneous currency and banking crises throughout the region has added considerably to Russia's frequent urge to stitch its empire back together.

According to Valery Karbalevich, a political analyst in Minsk, "Since August, the main driver of integration has changed from being Belarus to being Russia."

He explained: "The Russian elite at the beginning of the 1990s made a social compact, that it would sacrifice its empire for the sake of higher living standards and economic development. The August crash put an end to this bargain. Quite simply, they didn't get economic development, and so they want their empire back."

Shared history: Boris Yeltsin (centre) pictured with Alexander Lukashenko, president of Belarus (right), and Russian Orthodox Patriarch Filaret in front of a war memorial in Brest AP

Japan sees tax revenue fall by 5.4%

By Michiyo Nakamoto and Gillian Tett in Tokyo

The deterioration in Japan's government finances was highlighted yesterday by figures showing that December tax revenues fell 5.4 per cent largely as a result of lower corporate tax revenues.

The revenue fall to Y2,596bn ($22.3bn) came largely from a 20 per cent decline in corporate taxes collected to Y265bn as companies felt the squeeze from a sluggish economy.

The news added further gloom to the markets where concern about the economic outlook have put pressure on bonds and equities. Fears that any future unwinding of cross-shareholdings by Japanese companies could hit equity prices unsettled Tokyo stock market and the Nikkei index fell 34.07 to 14,465.16.

At the same time, rising concern about the expansion in government debt took the yield on the benchmark 10-year government bond to a peak yesterday of 2.11 per cent, its highest level since mid-1997.

Koji Tanami, vice-finance minister, attempted to damp concerns about the impact higher long-term interest rates would have on economic activity. "I don't expect the long-term interest rates to have a negative impact on the private sectors' cash demand," he said yesterday.

However, unease about the ability of the Japanese economy to rebound has prompted moves within the ruling Liberal Democratic party to look for further ways to increase economic activity.

A key group of LDP politicians is considering allowing the Bank of Japan to buy government bonds directly in an effort to support the economy.

Okiharu Yasuoka, who heads an LDP financial-system revitalisation panel, said that given the severe impact deflationary pressures could have, his panel would consider a range of measures, including underwriting government bonds by the Bank of Japan.

The idea is opposed by other senior LDP politicians and by the BoJ itself.

Masaru Hayami, bank governor, has vehemently opposed any suggestion that the bank should underwrite the bonds since he believes the bank needs to reduce, rather than expand its balance sheet. Bank officials also fear that directly purchasing government bonds to could shatter the central bank's credibility.

Although the central bank is permitted to buy JGBs in the secondary market, it only does this to manage its regular monetary operations, rather than as deliberate anti-inflationary policy.

But Mr Yasuoka's willingness publicly to discuss central bank underwriting of the bonds suggests he has the backing of at least some key members of the LDP.

His comments provide the first public indication that elements in the government are considering this unorthodox anti-deflationary step. Brian Rose, economist at Warburg Dillon Read said: "This is a political bomb. I don't think the government is desperate enough to do this yet, but it might later."

Mr Yasuoka's panel is also considering the possibility of setting up a government body to buy shares in an effort to prevent the unwinding of cross-shareholdings by Japanese corporations from causing market turmoil.

India and US near N-test sanctions deal

By Mark Nicholson in New Delhi

India and the US are moving towards an agreement by which Delhi would agree to accede to the Comprehensive Test Ban Treaty, perhaps within a few months, would do so in return for having economic sanctions, imposed by the US after India's nuclear tests last May, lifted first.

The outlines of such a deal emerged after three days of talks between Strobe Talbott, US deputy secretary of state, and Jaswant Singh, India's foreign minister. A joint statement after the talks ended on Sunday hailed them as "laying the foundations for a new, broad-based relationship that has eluded the US and India in the past".

Both sides resisted publicly suggesting any "breakthrough" from the weekend talks, the eighth in a series of Indo-US discussions prompted by India's nuclear weapons tests. But both US and Indian officials have privately suggested that the talks produced substantial movement towards an eventual deal to lift sanctions in return for India's signing the CTBT, which it has traditionally and staunchly opposed, around the middle of this year.

In an interview, Mr Singh said: "What we are witnessing is the synergy of small steps, as against the explosion of a 'breakthrough' as such – but the small steps are directed towards a commitment the prime minister has given to the United Nations and India's parliament."

Atal Behari Vajpayee, India's prime minister, promised at the UN last year that India would work towards the "successful conclusion" of negotiations regarding the CTBT.

Mr Talbott yesterday met the Delhi ambassadors of the G8 group of industrialised countries to discuss the progress of the latest round of US-India talks. The eight agreed to freeze non-humanitarian lending to both India and Pakistan by multilateral agencies, including the World Bank and Asian Development Bank, in response to their respective nuclear tests. The US has since waived the restriction on Pakistan, citing its acute financial crisis.

The persisting block on lending to Delhi from international financial institutions has led to the deferral of more than $2bn worth of loans from the World Bank and the ADB.

Strobe Talbott: laying the foundations for a new, broad-based relationship

Australia share ownership rises

By Gwen Robinson in Sydney

Direct share ownership among Australians surged in 1998, reinforcing Australia's position in second place in the world league of share ownership, behind only the US, the Australian Stock Exchange (ASX) said.

In an annual survey published yesterday, the ASX said the number of Australians who directly owned shares rose about 10 per cent last year, to 4.4m people, or 32 per cent of the adult population, largely because of a series of successful flotations, which included AMP, the Australian insurance and funds management giant, and TAB, a state betting agency.

About 1.6m Australians received shares as part of AMP's listing last June, including 730,000 first-time investors, the highest number of first-time share owners entering Australia's stock market at one time, the ASX said.

Total share ownership, including indirect shareholdings through superannuation funds, showed a sharp increase from the 1997 survey, which put total share ownership at 34 per cent of the population.

The results came as the ASX hit a high on Monday, its benchmark All Ordinaries index rising one per cent to 2,923.7 points on turnover of A$972m (US$607.5m), surpassing the previous record close of 2,897.3 last month.

Market players were looking to today's meeting of the Reserve Bank board, the central bank board's first meeting of the year, although analysts ruled out a further interest rate cut.

Unexpectedly low inflation figures for the December quarter had fuelled speculation of a rate cut later in the year, following the bank's unusual move to cut rates by a quarter of a percentage point in December. But economists said yesterday the Australian economy was at present in no need of stimulus and official cash rates, now at 4.75 per cent, would stay unchanged.

Peter Costello, the treasurer, yesterday said the "continuing dream-run" of low inflation in Australia cushioned the economy against turbulent global trends.

NEWS DIGEST

CHINA UNICOM

Ministry official to head telecoms group

China Unicom, a second state telecoms company established in 1994 to provide competition for China Telecom, the dominant state player, appears set to fall under greater official control with the planned appointment of a senior ministry official as its chairman.

Yang Xianzu, the first vice-minister of information industry, is expected to be made chairman and possibly general manager of Unicom shortly, telecoms officials said.

Analysts said the planned appointment, which co-incides with talk of other personnel changes at the higher levels of the Ministry of Information Industry, could strengthen official control over competition between Unicom and China Telecom, and allow Beijing to exercise increased influence over telecoms equipment procurement decisions. China has said that, where possible, the equipment made by local Chinese companies should be bought before that of foreigners. Mr Yang has publicly endorsed this "buy local" policy over the past few months. **James Kynge, Beijing**

SOUTH KOREAN ECONOMY

IMF to raise growth forecast

The International Monetary Fund is expected to revise upward its economic growth forecast for South Korea this year to 2 per cent from minus 1 per cent. The new IMF forecast comes in spite of a warning by Hubert Neiss, IMF Asia-Pacific director, that Korea is in danger of becoming complacent about a sustainable recovery.

Meanwhile, Seoul yesterday said imports had increased by 15.4 per cent last month in a sign of increased industrial investments as companies restock inventories of raw materials and capital goods. Analysts said investment had been on the rise since the second half of 1998 as the government tried to revive the economy by easing fiscal and monetary policies.**John Burton, Seoul**

JAPANESE INDUSTRY

Vehicle sales decline

Japanese domestic vehicle sales dropped in January by 6.2 per cent year on year to 241,511, the 22nd consecutive month of decline, highlighting the industry's continuing plight. The Japan Automobile Dealers Association yesterday reported sales of cars over 2000cc and trucks were particularly badly hit, recording declines of 9.9 per cent and 18.7 per cent. Cars up to 2000cc were up 2.1 per cent in a year-over-year comparison.

Chikao Masuzawa, analyst at ING Baring, said: "As last year's sales figures in January were very low, this month's decline is not very encouraging. However, we are comparing 18 working days in 1998 with 19 working days in 1999, this accounts for a part of the decrease. Given that the decline is single digit, the figures are not disastrous." **Julie Hess, Tokyo**

TAIWANESE ECONOMY

Interest rates reduced

Taiwan's central bank has cut interest rates as part of a series of measures aimed at boosting growth and countering the effects of Asia's economic crisis. The bank's fourth batch of rate cuts in less than half a year came on the same day as the Taipei stock index fell to a 32-month low on worries about Taiwan's economic health.

Hsu Yi-hsiung, central bank deputy governor, said there was room for further reductions after a 25 basis point cut that brought the rediscount rate to 4.5 per cent. The bank, which cut its rate for secured loans by 25 basis points to 4.875 per cent, said the move reflected high financial market liquidity. **Mure Dickie, Taipei**

AUSTRALIAN INITIATIVE

Asia aid flows to be studied

Australia is to host a meeting of international aid donors and Asian governments in March to seek ways of improving flows of assistance to countries hit by economic crisis. Alexander Downer, foreign minister, said the meeting in Sydney would not be a pledging session. Instead it would look at ways of better co-ordinating the provision of humanitarian assistance and promoting good government. Senior officials from the US, Europe, Japan and other industrial countries are likely to attend, while recipient countries will be represented at ministerial level.

In a speech to the Royal Institute of International Affairs in London, Mr Downer also warned that regional stability could be harmed by uneven cuts in defence spending across Asia as countries reacted to differently to the crisis. The change in the relative military strength was "potentially a problem," he said but declined to give specific examples. **Peter Montagnon, Asia Editor, London**

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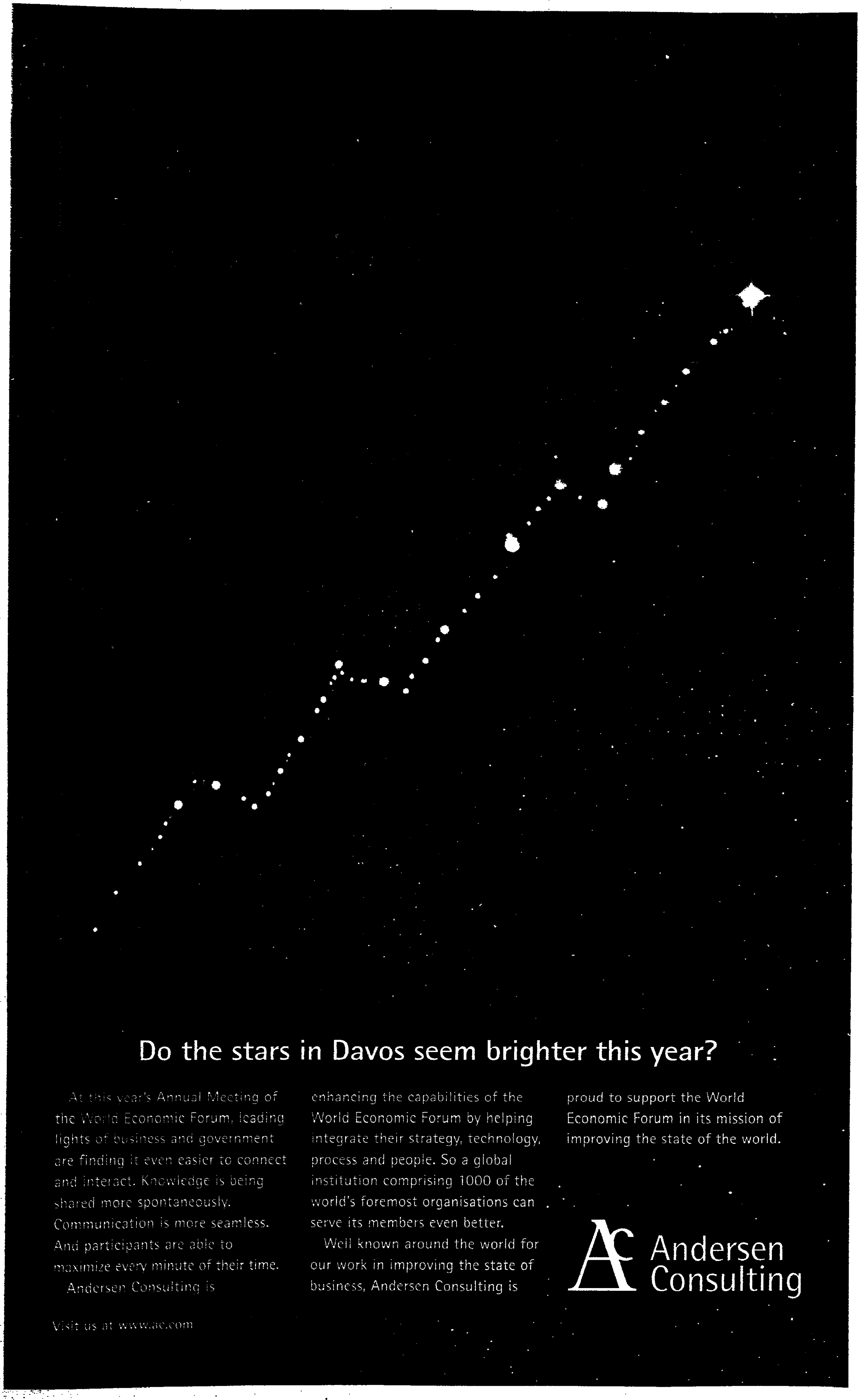


INTERNATIONAL LOANS ATTEMPT TO SHORE UP NASCENT DEMOCRACY AS LOW OIL PRICES WREAK HAVOC WITH ECONOMY

West plans $1.5bn package for Nigeria

By Michael Holman and Tony Hawkins

Western governments and lending agencies are preparing a conditional $1.5bn package of support for Nigeria in an effort to ease an economic crisis which could destabilise the civilian government due to take office at the end of May.

Provided the winner of this month's presidential poll backs the economic reform programme introduced by General Abdulsalami Abubakar, Nigeria's military leader, an informal meeting of donors, chaired by the World Bank, is planned for March.

This will be accompanied by first steps towards rescheduling Nigeria's $29bn external debt, say western and Nigerian officials.

The initiative, which gathered momentum following Nigeria's recent return to the IMF fold after a 10-year break, reflects the importance western governments attach to the successful return to democracy of Africa's most populous nation, at a time when its economy is undergoing the most serious strains since independence in 1960.

The transition was at "a critical moment for Nigeria and the African continent", Gordon Brown, the UK chancellor of the exchequer, told a private dinner at the World Economic Forum in Davos on Saturday night. "The west has to play its part in making it a success," he said.

"We also have to see a new commitment to open government, sound and transparent institutions of policy, and a shift in spending towards health and education," the chancellor warned.

Earlier this month Nigeria met some of the main conditions of an IMF agreement when it ended a two tier-exchange rate, ended a subsidy on domestic fuel, and pledged faster privatisation of state-owned companies.

This paved the way to an agreement on an IMF monitored programme, which the Fund board is shortly expected to approve. The proposed donor meeting in March, say western officials, will be part of an effort to help bridge Nigeria's 1999 financing gap, estimated by Ismaila Usman, the finance minister, at $1.5bn.

IMF and Nigerian government officials expect the full impact of the 12 year low in the price of oil, which accounts for 95 per cent of export earnings, to hit the country mid year, shortly after the scheduled handover to a civilian administration.

Fund officials fear that without external assistance, there is a risk of social unrest in a country already under considerable strain. Unemployment is rising, per capita income has fallen from a peak of nearly $1,000 a year to about $250, the country's infrastructure is near to collapse, and the naira, worth a dollar in the early 1980s, is worth barely cent today.

But western officials make clear that Nigeria will have to overcome widespread scepticism about the commitment to reform from a country that has failed to keep past pledges to the IMF and is notorious for corruption.

Although the presidential election takes place at the end of February, the inauguration of the new administration is not until the end of May.

Given the backing of the president-elect, and provided there is continuing evidence of the government's commitment to reform, say western officials, a $1bn three-year extended structural adjustment loan from the Fund could be close to agreement by the time the new civilian administration is installed.

The combination of the first tranche of the IMF loan, fresh lending from the World Bank and the African Development Bank, and the availability of at least $300m in aid from the European Union undisbursed during the preceding military regime of the late General Sani Abacha, would help close the financing gap.

Nigeria, which will be claiming eligibility for debt relief on the highly concessional terms offered by the joint World Bank/IMF Heavily-Indebted Poor Countries Initiative (HIPC), also hopes to open formal negotiations on its $20bn debt to the Paris Club of official creditors in April.

The proposal has so far met with a sceptical response from the Club, whose $20bn debt has not been serviced for some years.

DELTA REGION RISING VIOLENCE BY TRIBAL ACTIVISTS THREATENS TO COMPLICATE TRANSITION TO DEMOCRACY

Risk of more disruption for oil companies

By Robert Corzine and William Wallis

US oil fire experts extinguish a seven-day blaze last October that began after a pipeline was vandalised. Violence has since worsened

The violence between Nigerian troops and protesters in the oil-rich Niger Delta continued unabated at the weekend, with 19 people reported killed close to the Forcados crude export terminal operated by Royal Dutch/Shell, the biggest foreign oil company in Nigeria.

Last month dozens were killed in neighbouring Bayelsa state after troops were called in when young activists of the Ijaw tribe threatened to shut much of the onshore oil production.

The latest incident underscores the rising tension in the area, where foreign petroleum companies face the prospect of more widespread and violent disruption to their operations unless the military government takes steps to meet the demands of local communities for a greater share of the Niger Delta's oil wealth.

So far the government has only announced the formation of a high-level committee to look into the issue, even though the growing conflict in the Delta could complicate the transition to democratic rule in Nigeria and challenge the incoming civilian government's ability to hold the country together.

Ijaw villagers and their leaders believe the cycle of violence will accelerate if the government proves insincere in dealing with their demands, and that the next wave of oil field disruption could be far more extensive. About 200,000 b/d of production – mainly belonging to Royal Dutch/Shell and Chevron – is shut across the Delta as a result of what oil companies describe as "community action".

They say the tension is the worst they have experienced. For an older generation of residents the reinforcement of troops and gunboats has recalled the civil war 30 years ago, fought in part in the maze of creeks and mangrove swamps from where the oil is pumped.

Although many traditional leaders have argued against violence, their authority among the younger generation has been eroded by the perception that they have been corrupted by payoffs from oil companies and the government.

"If we're not careful soon the traditional leaders will be the target as it happened in Ogoniland," said Antony Ikonibo, paramount ruler of the Akassa clan along the Atlantic coast. "There they were appealing for calm but the youths thought they were taking money and so they butchered them."

Although residents differ in how to approach the companies and the government, there is no disagreement about the need for a radical redress of their grievances. The Ijaw, numbering several million, are Nigeria's fourth-largest tribe. But while they are a minority group in some states, in Bayelsa they are the overwhelming majority.

The state, described on vehicle licence plates as "the pride of the nation," is littered with examples of past failures to share Nigeria's oil wealth with the regions that produce it. There is only one paved road leading to Yenagoa, where the wife of one former military administrator enriched herself through the supply of cement for government buildings, many of which were left half-finished.

In the fishing villages where most of the population lives there is no electricity or clean water. Formal government services are non-existent. The jungle has reclaimed schools and health centres. To add insult to injury fuel prices are more than four times the official level, in a riverine area where boats with high consumption engines are the lifeline to the outside world.

The oil companies have felt obliged to step up their own contribution to the region's development, but some of their actions are exacerbating tensions. Their efforts are also undermined by their fear of talking directly to villagers. During a recent visit to Sangana, a small fishing port, residents were seen squabbling noisily over the distribution of a cow, some tins of tomato and other foodstuffs offered to them by Texaco which operates a nearby rig. Several community leaders said they resented such offerings as they could not be distributed equitably and were a source of jealously among villagers.

"Our grandfathers were deceived with food and drink," said Javan Wongoro, a community elder.

Moreover, the companies' frustration at the deteriorating situation in the Delta has led them at times to embark on seemingly desperate strategies. Several companies have put Ijaw youths on the payroll and asked them to do nothing more than stay at home and out of trouble. But in the case of Shell, this tactic nearly backfired. It hired youths from Nembe, one of the biggest fishing towns in Bayelsa, who approached their counterparts in Akassa with a proposal that they kidnap the Nembe group.

The aim was to split a ransom that Shell would have been asked to pay. The Akassa youths, who last December received more than $10,000 to return a hijacked seismic boat, rejected the scam.

In the light of the latest clashes a big uncertainty among both the companies and the communities must be whether the Delta is now so ungovernable that even concrete gestures from Abuja, the federal capital, may not be enough to prevent the conflict from entering a more dangerous phase.

Saddam offers 'prizes' for downing jets

By Roula Khalaf in London

Iraqi President Saddam Hussein is taking his defiance a step further and promising a 25m dinars ($83,000) award to air defence troops who shoot down a US or British warjet patrolling the no-fly zones.

Nabd al Shabb, an Iraqi newspaper, said yesterday the presidential office would also pay 10m dinars for bringing down a missile, and a further 5m dinars for the arrest of an enemy pilot. These sums are fortunes in a country where monthly salaries are worth a few US dollars.

Since the US and British air strikes on Iraq in December, Baghdad has been firing at US and British jets patrolling the northern and southern no-fly zones imposed over the country, and periodically sending its aircraft into the exclusion areas.

Bringing down a jet would boost troops' morale, following the pounding of military installations in Operation Desert Fox.

The US military has been given expanded rules of engagement allowing it to strike at any part of Iraq's air defence system. Derek Fatchett, minister of state at the UK foreign office, said yesterday that jets would continue enforcing the no-fly zones as a "necessary humanitarian measure".

The zones were imposed following the 1991 Gulf war to protect Iraq's Kurds in the north and Shias in the south. Iraq considers the zones illegal because they were not set up as part of a United Nations resolution and are only enforced by the US and Britain.

Mr Fatchett yesterday called on Baghdad to co-operate with the three panels set up by the UN Security Council on Saturday to review progress on disarmament, the humanitarian situation and the issue of missing Kuwaiti prisoners and property.

The panels are to report back to the council in April. Baghdad has dismissed the UN decision as a way of prolonging the eight-year UN sanctions.

Speaking at London's Royal United Institute for Defence Studies, Mr Fatchett portrayed the UN decision on the panels as having re-established consensus on Iraq at the Security Council. The council has been deeply split since the US and British raids. But he said the panels could achieve progress without Iraqi co-operation.

A significant achievement for US and UK policy, Mr Fatchett added, was that the panels revived the role of Unscom, the UN weapons inspecting commission which Iraq accuses of spying.

Russia wants Unscom abolished, but agreed that the disarmament panel "would involve the participation and expertise from the UN Special Commission", as well as other UN disarmament agencies.

'Triple cocktail' hope in Aids fight

By David Pilling, Pharmaceuticals Correspondent

HIV patients may be able to prevent the onset of full-blown Aids without resorting to drugs suspected of causing severe side-effects, according to data presented at an annual retrovirus conference in Chicago yesterday.

The Atlantic study, which was organised by European and US universities, found that "triple cocktails" of drugs without protease inhibitors were as effective in suppressing viral load as those containing them.

Defenders of protease inhibitors, heralded as a wonder drug when introduced in the mid-1990s, argue that lipodystrophy – the heavy build-up of fats – is a consequence of surviving HIV, and that its effects have only been noticed as patients live longer.

Triple therapy suppresses HIV, but does not appear to eliminate latent viral "reservoirs". The high-stakes strategy is to encourage the virus to replicate, in effect entice it out of hiding, before "zapping" it with powerful drugs.

REGIONAL MARKETS WITH ASIA NO LONGER IN FASHION, EXECUTIVES EYE EURO-ZONE FOR INVESTMENT

Euro-phoria grips business leaders

By Tony Jackson in Davos

A year is a long time in business. At the World Economic Forum in Davos a year ago, western business leaders were rubbing their hands over the Asian crisis, and the chance of picking up assets on the cheap. This year, emerging markets have been virtually written off. The latest fad is Europe: more specifically, the euro-zone.

The new note of euro-triumphalism was sounded by Gerhard Cromme, chief executive of the German manufacturer Krupp Hoesch Thyssen. The euro, he said, would enable Europe to make up the ground lost to the US over the past 20 years.

It was already causing mergers, plant closures and industrial concentration. "The euro will speed up this process in a way most people outside the business world – politicians, trade unionists and the general public – have yet to realise," he said.

Gerard Mestrallet, chief executive of the French utility Suez-Lyonnaise des Eaux, said the euro would also have a profound effect on governments. "Different states will be forced to adopt competitive economic policies," he said.

The mood was not confined to European executives. At a private dinner in Davos on Saturday, the chief executive of a large US manufacturing company asked his guests whether, on a five-year view, they would prefer to invest in Europe or emerging markets. Almost without exception, they chose Europe.

All this seems rather at odds with the fact that the euro is still in practical terms almost non-existent, except in financial services. A director of a large European vehicle components maker at Davos confided that, by late January, euro invoices received by his company were still in single figures. He had mentioned this to one of the big euro-zone carmakers, only to discover it had yet to receive any euro invoices at all.

The one note of concern from employers was on wages. Adair Turner, director general of the Confederation of British Industry, the UK employers' body, said: "It is on the trade union agenda to introduce pan-European collective bargaining. If [wage] harmonisation across regions runs ahead of productivity, you have a powerful engine for unemployment."

Meanwhile, if western business leaders were dismissive of emerging nations, those nations seemed to return the compliment. Delegates had little to say on attracting investment, much more on how to limit capital flows as a means of protecting themselves against speculation.

The mood was summed up by Lee Kuan Yew, Singapore's elder statesman. "For small countries," he said, "the cost of opting out is less money coming in, and less growth. But once they have done their cost-benefit analysis, that may be better than the risk of devastation."

The business response to that was predictable. Jon Corzine, co-chairman of the UK investment bank, Goldman Sachs, said limited restraints on the inflows of capital should not be dismissed. "But no one will invest in a country," he added, "if they don't believe they will get their money out."

Newly isolated genes can fathom the human heart

By William Hall

It may not be too long before genechips, which can read people's genetic blueprints, become as common as microchips, and the revolution in the biotech industry spawns companies that have an impact similar to the one Microsoft has had in the computer industry.

Bill Haseltine, chief executive of Human Genome Sciences (HGS), is one of a new breed of scientists-turned-entrepreneur trying to capture the benefits of the biotech revolution.

He has formed seven biotech companies since he left Harvard and yesterday gave his thoughts on the next generation of genetic and medical technologies.

He formed HGS in 1992 and it has been able to isolate in a useful form virtually all the human genes. "The goal of our industry is to be able to predict, detect, prevent, treat and ultimately cure most diseases of man. In our lifetime we will see great progress," said Mr Haseltine.

He cited cardiovascular disease, the main cause of death worldwide. HGS has a virtually complete set of genes of the heart and can understand how they change and help the passage of the disease. This will allow the detection of changes that are occurring in the heart.

"The earlier you can detect a change, the earlier you can alter the course of disease favourably," said Dr Haseltine.

"We now have the ability to predict the occurrence of future heart disease. It is not pie in the sky."

But he believed the real impact of the genetic revolution on disease would be on regenerative medicine – the ability to repair parts of the body damaged by disease, injured by trauma and even worn by time.

A gene has been discovered that the body uses to build new blood vessels. If it is injected into heart muscle it can regrow blood vessels. "It is happening in real patients today. We can grow new blood vessels in arms and legs when needed."

In the next three to five years, he predicted that the greatest impact of genetic research on cancer would be providing tests to identify individuals at risk when they are well. One of the big issues in cancer treatment is being able to detect the disease early enough to cure it.

Speak up about the good side of mergers, executives warned

By Tony Jackson

Executives heading some of the world's biggest mega-mergers warned yesterday of the threat of a political backlash against the merger wave. It could only be averted, they said, if the public and politicians could be persuaded that mergers were socially beneficial.

Speaking at the World Economic Forum at Davos, Rolf-Ernst Breuer, spokesman of the board at Deutsche Bank, said the political climate towards mergers was worsening. "Politicians and the media are saying managers are buying and selling companies like used cars," he said. "I am afraid that before too long, we will have to argue again for the social benefit of mergers."

Deutsche Bank is in the process of taking over Bankers Trust of the US in a deal worth $10.1bn.

The sensitivity of top executives to public opinion reflects their belief that the merger wave is set to continue, with consequent job losses in the short term. Further consolidation is expected in a number of industries worldwide, such as banking and cars. In Europe, there is additional pressure to restructure from the advent of the euro.

According to Rajat Gupta, head of the consulting firm McKinsey, worldwide mergers last year totalled $2.3000bn compared with $1,5000bn in 1998 and $1,000bn in 1996. Mergers had also grown sharply in size, with the top 10 last year worth $550bn, compared to $200bn the year before.

Sir John Browne, chief executive of the oil group BP Amoco, formed in a $30.3bn merger last month, said, "It can't all be severance and cost reduction. Something good has to come out of a merger. The question is whether we can get innovative ideas out of mergers and provide products which customers prefer."

No one liked big companies, he said: neither those who worked in them, nor the public. However, European surveys showed that people believed large companies were more responsible than small ones. "I'm not sure that's true, but we had better make it true," he said. "Otherwise, one of the fundamentals [of mergers] will be corroded."

Daniel Vasella, president of the Swiss drug group Novartis, formed in an $80bn merger three years ago, said, "Layoffs create fear, and consumer benefits are often taken for granted or not recognised. The difficulty is that politicians and the public often cannot see beyond the stressful period of reconstruction."

Jürgen Schrempp, chairman of DaimlerChrysler, formed last year in a $40.5bn merger, said global companies could alleviate poverty. "In a world where half the people don't have food or water, you can bring jobs to them," he said. "But only a profitable company can be a social company."

Sir John Browne: 'Something good has to come of a merger'

Ageing baby boomers lead drug groups a merry dance

By William Hall

Never mind Viagra. What the over 50s really want is a drug to put the light fantastic back in their dance routine.

Kenneth Dychtwald, chief executive of Age Wave, which specialises in the study of ageing, said yesterday an over-50s women's focus group researching what products might help them feel and function better found that what the women really wanted was a pill to make men dance more. "They could do without the dog in heat but they would like to go out for a night of dancing," he said.

Mr Dychtwald, who helps companies develop products to satisfy the appetites of ageing, wealthy baby-boomers, describes Viagra as a watershed. "The message was that people who are functioning at less than an optimum level want to return to that optimal level," said Mr Dychtwald.

"Whether it is how youthful your skin looks, your ability to stay lean and trim, or even how easily you move your bowels. The world is going to want thousands of products to bring about human enhancement," said Mr Dychtwald. He predicts a trillion-dollar "human enhancement" industry.

It would draw on five or six different areas of science that would provide therapies, ingredients and technologies to allow people to ward off the effects of ageing.

The notion of living a long time but falling apart more each day was a "nightmare of ageing" and people would spend large amounts of money to prevent it.

Hormones add to WTO pressures

By Frances Williams in Geneva

The US and European Union yesterday fired fresh warning shots at the World Trade Organisation in their dispute over beef hormones which both sides say threatens to dwarf their dispute over bananas.

US officials said the EU appeared to have no intention of lifting its 10-year-old ban on hormone-treated beef by May 13, the date set by the WTO for implementing its ruling against the ban.

"Such a stance would further undermine the credibility of the WTO system," Rita Hayes, US ambassador to the WTO, told a meeting of the WTO's dispute settlement body.

Washington last week requested WTO authorisation to impose more than \$500m in trade sanctions on EU goods because of the EU's alleged failure to comply with an adverse WTO ruling on its banana import regime. That request has been suspended pending arbitration.

The US has also threatened to retaliate if Brussels does not lift the beef ban which the US estimates is costing its cattle farmers \$250m a year in lost exports. However, in an indication that Washington may be prepared to be more conciliatory, US officials have urged the EU to discuss "WTO-consistent solutions" before the May deadline expires.

The EU says the ruling allows the ban to be maintained provided it can be justified by scientific evidence that the hormones in question pose a health risk for consumers.

EU officials told the dispute settlement body yesterday that Brussels had commissioned new scientific studies which, though they would not be complete by May, would allow the EU "to fully implement" its WTO obligations.

In a separate dispute, the dispute settlement body established a panel to examine a 1916 US anti-dumping law that the EU claims is being used to harass European steel companies. US officials said yesterday that the law was "moribund." However, US steel companies, hit by a surge in imports, have recently filed cases against European and Japanese importers. Japan also plans to bring a WTO complaint.

A panel was also set up at the request of the EU and Japan to investigate Canada's auto pact with the US which gives trade privileges to America's Big Three car manufacturers. Another panel will consider Canada's patent legislation which Brussels claims violates the WTO's rules on intellectual property protection.

A fourth panel request by the EU, this time concerning anti-subsidy duties imposed by the US on steel imports from the UK, was postponed until February 17. At that meeting the EU also plans to ask for a panel to rule on Section 301 of US trade law which Brussels claims is being used to threaten unilateral – and thus WTO-illegal – sanctions in the banana case.

INTELLECTUAL PROPERTY BUSINESSES MAY BE LOSING \$1bn A YEAR THROUGH ILLEGAL COPYING

Software pirates boom on the internet

By Paul Taylor

The internet has become the fastest growing area for software piracy and could be costing software developers up to \$1bn a year in lost revenues, according to Robert Holleyman, chief executive of the Washington-based Business Software Alliance.

The BSA, which represents most of the large business software developers including Microsoft, Symantec and Adobe, has begun monitoring the number of web sites offering, linked to or discussing *warez* – the hacker name for pirated software.

In some cases these web sites offer software for downloading, in other cases they provide key-numbers and passwords enabling illegal software users to bypass software security measures. In many cases the sites are also linked to pornography distribution.

Research by the alliance shows that the number of these sites in Europe jumped from about 39,000 at the end of April to 94,832 at the end of December. Worldwide, the number of *warez* mentions more than quadrupled from 200,100 at the end of April to almost 900,000 at year end.

If just 1,000 sites handle 1,000 downloads a year of software worth \$1,000 each the revenue lost would be \$1bn. "The internet is a very important way of legally distributing software and virus updates," said Mr Holleyman, "but it is also the easiest way for pirated software to be distributed and it is a difficult form of distribution to police."

In its response to the European Union's green paper on combating counterfeiting and piracy in the EU, the alliance notes: "Internet piracy is a cross-border problem unlike any that copyright holders have faced before. Unauthorised copies can be made available by internet users based in any of the EU member states or any other country, and downloaded by any of the more than 100m internet users in other member states and throughout the world."

One case brought by the BSA in recent years illustrates the scale of the problem. In 1995 the BSA received a tip-off that a large collection of commercial computer programmes had been installed without permission on an internet server at the Swedish Royal Institute of Technology. Over a three-week period of monitoring, software worth \$1.7m was downloaded by internet users all over the world. The university shut down the site and police arrested two students.

In other cases the internet is used to advertise pirated software. For example, the BSA said large volumes of conterfeit software CD-Roms had been offered for sale on a web site based in Denmark last year.

The BSA and other trade organisations have had some success in reducing the level of physical piracy in recent years, particularly in developing countries, but also in many west European markets.

He said the BSA was adding resources to help combat the problem, but added that the alliance mainly had to rely upon internet service providers for co-operation in identifying and closing down pirate software operations.

ECGD opens talks on resuming Cuba cover

By Pascal Fletcher in Havana

After an absence of direct formal contacts lasting more than a decade, Britain's Export Credits Guarantee Department (ECGD) has re-opened talks with Cuba's government about the possibility of resuming cover for British exports to the Caribbean island.

John Weiss and Ms Celia Adivihalli, two senior ECGD officials, have been in Havana to meet Carlos Lage, Cuba's vice-president, Francisco Soberón, central bank chief, and other government officials. The talks were described by British diplomats as "exploratory".

Resumption of ECGD cover for UK exporters operating in Cuba would be linked to some formula for repayment of short-term debt owed by Havana to the British export credit agency. Cuba's total arrears to the ECGD of £120m (\$200m) include some £17m (\$28m) of short-term debt.

The Havana talks resulted from a visit to Cuba last November by Brian Wilson, UK minister for trade. He expressed concern that British exporters were losing out to some of their European competitors because of the absence of official UK export credit cover for the island.

Britain's trade with Cuba has lagged significantly behind that of other European Union nations, such as Spain, France and Italy; British businessmen say the lack of ECGD cover is largely to blame for this.

Medium-term cover provided by the ECGD was withdrawn in 1983 when Cuba first rescheduled its foreign debt with the Paris Club group of creditors. The British agency's short-term operations were transferred to the private-sector company, NCM of the Netherlands, in 1991.

The revival of official contacts between Havana and the ECGD comes amid increasing efforts by Cuba to seek solutions to the problem of its \$10bn foreign debt.

Last year, Havana signed two bilateral debt rescheduling agreements, one with private companies in Japan and another with the Italian government. Cuban officials have also re-opened a dialogue with the Paris Club to study debt solutions.

Diplomats said the British agency was already in the early stages of negotiating possible support for an investment project in the island's electric power sector.

This would involve the supply of equipment by a British company. Underwriting the export of equipment was a potentially fruitful area of future business.

NEWS DIGEST

UK ENERGY MARKET

Britain complains over Polish coal subsidies

Britain has complained to the European Commission and Poland about subsidised Polish coal exports distorting the UK coal market. John Battle, UK energy minister, said yesterday that efforts to safeguard the British coal industry could be undermined by the imports. The UK claimed that Polish coal producers received state finance of about £200m (\$330m) a year, which is not repaid.

British coal experts said this meant Polish imports were being sold at a fifth of the price of production. "This distortion needs to be removed quickly if it is not to do lasting damage to UK producers," Mr Battle told a Coal Industry Society meeting in London.

"Over the last few weeks I have had strong complaints from UK producers that Polish coal is entering the UK market at prices below the cost of production in Poland," he said. **Sathnam Sanghera, London**

SEMICONDUCTOR MARKET

Growth of 15% forecast

After three years of declining or meagre revenue growth, the worldwide semiconductor market will grow by 15 per cent to \$154.5bn this year, according to Dataquest, part of the Gartner Group IT consultancy. The strong forecast comes amid mounting indications that the slump in memory chip prices, which has cast a shadow over the whole semiconductor industry in recent years, may finally be over. In addition, Dataquest analysts expect second half revenues to be bolstered by Year 2000 concerns which they expect to result in firm equipment orders.

"The third quarter of 1999 should bring good semiconductor growth – helped in part by "protective ordering" in advance of potential year 2000 problems – followed by a strong fourth quarter of 1999," said Jim Eastlake, director for Dataquest's Semiconductors Europe program.
Paul Taylor, London

WIRELESS TELECOMMUNICATIONS

Mexican contract awarded

Nortel Networks, the Canadian communications networking company, yesterday announced a \$400m contract to build the world's largest fixed wireless telecommunications network for AXtel, one of Mexico's alternative carriers. Nortel said expected growth could eventually lift the value of the contract to \$750m. AXtel, formerly known as Telinor, expects the network would eventually serve 2m subscribers, making the system four times larger than any other currently operating fixed wireless network. AXtel is 51 per cent owned by Mexican investors and 27 per cent by Bell Canada International. Nortel said it would supply its second generation fixed wireless technology, a high capacity system called Proximity II, providing subscribers with voice, fax, data, internet access and other services. AXtel's networks is expected to begin operations by the second quarter of 1999. **Scott Morrison, Toronto**

MEXICAN ANTI-DUMPING ACTION

US pork exports penalised

Mexico yesterday announced it would impose countervailing duties on imports from the US of live pigs to protect Mexican farmers from a cross-border influx of pork products at below market prices. An investigation by Mexican trade and industrial officials between October 1997 and March 1998 said a further increase in US exports at dumping-level prices posed a threat to Mexican pig farmers which could "cause a serious deterioration in national production." Mexico is seeking to protect itself against an expected rise in US pork products due to large stockpiles in the US because of historic price lows. In November last year, pork imports from the US amounted to \$9.8m, up from \$819,000 in the corresponding month of 1997.
Andrea Mandel-Campbell, Mexico City

US BUDGET DEFENCE SPENDING BOOST □ MEDICAL COSTS HIGHLIGHTED □ SUBSIDIES FOR INDIVIDUAL RETIREMENT ACCOUNTS

Forecasts pave the way to fiscal bliss

By Gerard Baker in Washington

For most governments around the world, the budget-making process is essentially about choosing the most politically desirable trade-off among a number of competing objectives: cutting the debt, increasing spending, lowering taxes, addressing long-term fiscal problems.

For President Bill Clinton, who presented his budget for 2000 and beyond to Congress and the nation yesterday, there is no such uncomfortable range of choices. He can, and is proposing to, do just about everything: retiring a significant proportion of the government's debt as he puts social security, the state pension system, on a sound footing for another 30 years or more; cutting some taxes; and increasing public spending on a host of popular programmes.

The reason the president is in this almost unprecedented position of fiscal bliss is simple: federal government surpluses that simply keep growing with every new economic forecast.

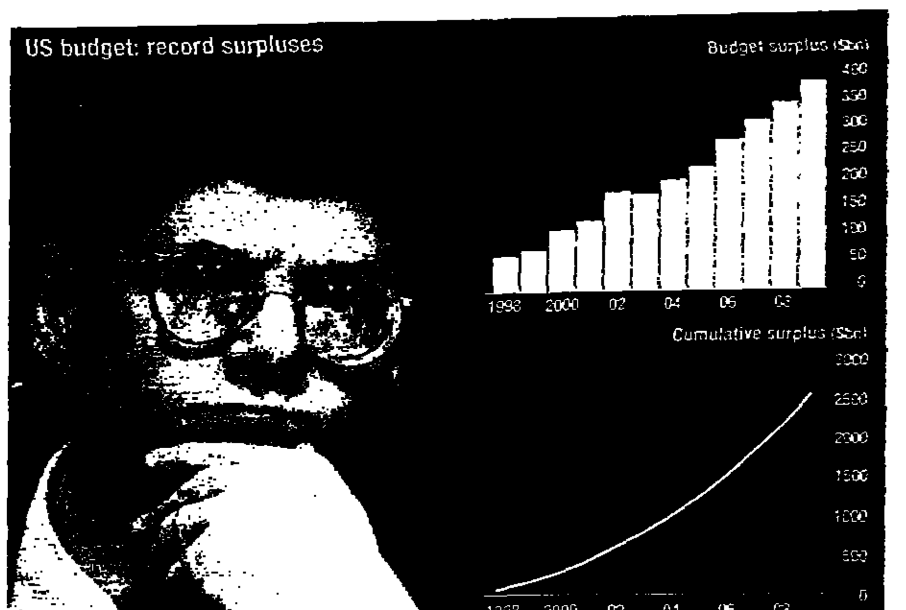
A year ago, when he presented the first US balanced budget for 30 years, Mr Clinton was able to forecast a cumulative, combined budget surplus of $1,000bn over the next 10 years – a remarkable feat in itself, given the large deficits that dominated the fiscal picture throughout the previous decade.

But yesterday the White House put the 10-year surplus estimate at more than $2,400bn. The difference is not the result of budget measures proposed by the president, but reflects a combination of improved economic and fiscal conditions.

The fiscal plenitude enables the president, at least in his legislative proposals, which will be substantially amended by Congress, to save social security, by allocating 62 per cent of the cumulative surplus to meeting the long-term liabilities of the state pension system. It will also allow him to increase spending on health, education, defence and law enforcement and cut the odd tax here and there.

But are these forecasts realistic? They seem based on perfectly sensible, perhaps even cautious, assumptions. Faster growth raises the surplus by increasing tax revenues and cutting spending on, for example, benefits. But you do not need to believe the US has shifted to a new paradigm of faster sustainable growth to believe in these projections.

Though growth has averaged more than 3.5 per cent per annum for the last three years, the White House expects it to fall quickly back below trend – at 2 per cent for the next three years, before reverting to the long-term rate of 2.4 per cent over the rest of the forecast period.



Jack Lew: director, White House Office of Management & Budget

The unemployment rate, currently at a 25-year low of 4.3 per cent, is expected to rise sharply, to 2.3 per cent by 2002 and for the foreseeable future.

Inflation hawks might find the price assumptions a little optimistic. Inflation is expected to average 2 per cent for the foreseeable future – a factor that helps cut indexed spending – but that is in line with most private-sector forecasts.

These assumptions are not much changed from a year ago. One thing that has changed in a way that raises the surplus, however, is interest rates. Long-term rates are forecast to be much lower – a whole percentage point lower this year – and three-tenths of 1 per cent lower in four years' time.

Part of that lower cost of borrowing represents the larger than expected surpluses themselves, but part of it stems from more favourable monetary conditions generally.

Even so, these assumptions do not seem wildly optimistic, and in any case they account for less than half of the budget improvement since last year, according to the politically independent Congressional Budget Office, which examines US fiscal conditions.

The CBO, whose projections this year are remarkably close to those of the White House, says the rest of the improvement comes from a number of technical factors.

Total government revenues will reach almost 21 per cent of gross domestic product next year, the White House says, the highest figure since 1944.

Expenditures, at a little over 19 per cent next year, are forecast to be at their lowest level since 1974. Here the improvements are the result of lower costs in programmes such as Medicare and Medicaid, the health insurance schemes.

What are the risks that these assumptions will prove optimistic? First, economic growth could turn out much weaker. The White House forecasts are based on a "soft landing" for the economy from its rapid rates of growth recently. But if a deep recession occurred they would have to change.

Second, spending could increase more rapidly if Congress lifted the discretionary spending caps imposed in a period of deficits. The forecasts assume some acceleration, but not much.

Third, the revenue performance of recent years is still something of a mystery. Receipts have risen much faster than GDP growth for five years. If that trend went sharply into reverse, the fiscal picture would look a lot more gloomy.

Real's slide halted as panic abates

By Geoff Dyer in São Paulo

Brazil's battered economy won some temporary relief yesterday when the Real's rapid slide against the dollar, which has raised fears of high inflation and financial chaos, was halted.

The panic selling that dominated the market on Friday was replaced by optimism that the Brazilian government would agree a revised emergency financing deal with the International Monetary Fund over the next few days.

Stanley Fischer, the IMF's deputy managing director, was due to arrive in Brasilia last night to lead the negotiations, which Brazilian officials believe will accelerate the approval of a new agreement.

By mid-afternoon the Real was trading at R$1.95 to the dollar, after closing at R$2.05 on Friday. The reduced tension in the currency market prompted shares on the São Paulo stock exchange to jump 4.6 per cent, while the prices of Brazilian international bonds were also higher.

The Real has now devalued 38 per cent since the government was forced on January 13 to abandon its crawling peg, which had been the centrepiece of the its anti-inflationary strategy.

In November, the government signed a $41.5bn financing agreement with the IMF and other international organisations. Brazil has drawn down around $9bn of the package, with a second $9bn becoming available by the end of February. However, as a result of the devaluation, the government is unlikely to meet some of the targets agreed with the IMF, including on the budget deficit.

George Soros, the billionaire investor, urged the IMF to release new funds for Brazil as soon as possible. "Brazil is in a very acute situation because on Friday you effectively had the beginning of a run on the banks," he said. "Interposing a wall of money would stabilise the situation."

Speaking at the World Economic Forum in Davos, he said the Brazilian currency was now undervalued and investing in Brazil was much less risky than putting money into Russia. "The case of Brazil is very different from Russia," he said.

The Brazilian government continued to deny that it was planning any drastic measures to stabilise the situation. "There is no possibility that the government will undertake violence against people's savings," said Pedro Malan, finance minister. Rumours about a freezing of bank accounts prompted some people to close their accounts on Friday.

Republicans' tax-cut plan inspires Clinton

By Deborah McGregor in Washington

President Bill Clinton is hoping to steal some tax-cut thunder from Republicans with his proposal to subsidise new individual retirement accounts to supplement social security benefits.

It is an idea that Republicans have carefully avoided criticising ever since Mr Clinton first mentioned it in his State of the Union speech a few weeks ago. There is a good reason for their reticence: they invented the idea and have several competing versions of it among their own tax-cut proposals.

In his budget yesterday Mr Clinton said he wanted to devote just over 10 per cent – about $500bn – of projected federal surpluses to encouraging people to set up the new accounts, dubbed "universal savings accounts".

The accounts would create a special savings vehicle, separate from social security, that would give people an additional source of income when they retired. The federal government would make an annual lump-sum contribution to the accounts, as well as matching workers' own contributions.

The matching dollars would be decided on a scale reflecting income, so those with lower incomes would get bigger subsidies.

From Mr Clinton's perspective, the idea possesses the beauty of allowing him to blunt Republican claims that he is opposed to returning any of the budget surplus to the people in the form of tax cuts.

While the plan is not technically a tax cut, his aides say it is one way of achieving the same result. And it is a way to entice people to save in a country with a historically low personal savings rate.

The new accounts would resemble the popular 401(k) plans that many corporations offer their employees. Workers would be able to choose among several investment alternatives, including stock and bond funds.

Two Republicans who share Mr Clinton's enthusiasm for the idea, although they have been careful not to put it that way, are John Kasich, House budget committee chairman and expected presidential contender in 2000, and William Roth, the chairman of the tax-writing Senate finance committee.

Mr Clinton's proposal is not technically part of his overall plan for restoring the troubled social security programme, which calls for 62 per cent of projected federal surpluses over the next 15 years to go toward shoring up the fund.

The new individual retirement accounts would enable workers to build up retirement funds while lawmakers try to reach agreement on the social security overhaul.

Baby boomer health costs highlighted

By Richard Wolffe in Washington

While his focus remained fixed on boosting social security, President Bill Clinton yesterday highlighted the need to meet the rapidly rising medical costs of the ageing baby boomer generation.

Medicare, the $217bn scheme for healthcare of the elderly and disabled, will be the second largest beneficiary of the government surplus after social security, taking $686bn over the next 15 years.

Mr Clinton said the additional funding would maintain the programme, which is expected to run out of cash in 2008, for a further 12 years. He said: "We can save it for another decade if we use one out of every six dollars of the surplus for the next 15 years to guarantee the soundness of Medicare. This budget makes a down payment on that goal."

According to the detailed budget statements, the number of elderly people claiming Medicare will grow slowly until 2010, when it will "explode as the baby boom generation begins to reach age 65".

After 2010, the average annual growth in Medicare will double as the number of people enrolled reaches 61.3m, compared to 37.6m four years ago.

The president also proposed to improve access to health insurance for people approaching retirement, aged over 62 years. The budget revives Democratic senators' plans to extend Medicare to allow 300,000 people to buy into the fund. It includes further plans to guarantee retired people over the age of 55 the right to buy into company-sponsored health plans.

In other healthcare provisions, Mr Clinton proposes offering families a tax credit worth $1,000 a year to help meet the cost of long-term healthcare for elderly or disabled relatives. About 2m people would benefit from the new plan, costing the government $5.5bn.

The president also proposed offering Medicare patients more opportunities to take part in clinical trials for new cancer treatments.

Elsewhere in the 2000 budget, the president highlighted education as a target for new funds, with the broad aim of raising school standards and providing financial rewards to "the highest-performing schools that serve low-income students".

Mr Clinton said state governments would gain new funds to help them identify and turn around their worst-performing schools.

Overall education spending will rise from $28.6bn to $31.8bn in 2000, including a second year of funding for his plan to add 100,000 new teachers to US classrooms by 2005. Mr Clinton revived plans for a $22bn package of school construction and modernisation bonds.

Debt servicing fears mount

By Arkady Ostrovsky and Edward Luce in London

Market concern is growing over Brazil's continuing ability to service its dollar-denominated and internal debt, given the weakness of the Real. However, economists say parallels between Brazil and Russia – the only large emerging market to default on its domestic obligations – are at best weak.

Although Brazil accounts for almost a third of all emerging market foreign currency bonds, the country has managed to extend the average maturity of its liabilities to about seven years. This is in contrast to Mexico in 1995 (less than one year) and Russia at the moment.

This year Brazil has to pay $6.7bn to service its dollar-denominated debt. With foreign currency reserves of about $36bn this is more than manageable, analysts say. In addition, Brazil's total external (including corporate) and public internal debt accounts for about 69 per cent of gross domestic product, well below that of Italy and Belgium.

But the total cost of servicing Brazil's domestic and external debt is above 8 per cent of GDP and, given Brazil's growing interest rates, this cost is likely to go up. According to Richard Gray of Bank of America, each percentage point rise in interest rates adds R$3bn (US$1.5bn) a year to the cost of servicing the debt.

"The main concern is that high interest rates in Brazil [currently 39 per cent] make the domestic debt burden unsustainable," said Alicia Duran of Merrill Lynch in New York. "With the Real being the anchor for the entire economic programme, the key factor is domestic investor confidence."

Boost for defence spending

By Stephen Fidler in Washington

The administration yesterday announced detailed plans for boosting defence spending until 2005 – but some critics said the rises seemed designed to disarm Republican critics rather than deal with the challenges likely to confront the US in the next century.

"I am proposing a long-term sustained increase in defence spending to enhance the military's ability to respond to crises, build for the future through weapons modernisation programmes, and take care of military personnel and their families by enhancing the quality of life, thereby increasing retention and recruitment," the president said in his budget message to Congress.

William Cohen, defence secretary, said the proposed increases would meet the most pressing requirements of senior military leaders. He said the budget was meant to address "warning signs of potential problems. Recruiting and retention [of personnel] are increasingly difficult, readiness harder to maintain, and weapons modernisation tougher to fund significantly."

The budget includes $53bn for pprocuring new weapons in fiscal 2000, and is projected to reach $62bn in 2001, surpassing the $60bn goal set by the administration.

The procurement budget was expected to rise to $69.2bn in 2004 and $75.1bn in 2005, according to figures released yesterday.

Budget is meant to address 'warning signs of potential problems'

For 2000, the $12.6bn proposed spending rise includes just $4.1bn of new money, the rest being accounted for by cost savings and other budgetary adjustments. Over the six years to 2005, however, $84bn of the proposed $112bn increase would be new money. The requested budget authority grows from $262.6bn this year, to $267.2bn in 2000 and $318.9bn in 2005.

There were few unexpected changes in programme procurement. John Isaacs, president of Council for a Livable World, a non-profit group favouring lower military spending, said the budget included provisions to buy 30 more Lockheed-Martin F-16 combat aircraft in the next four years, and more Boeing C-17 airlift aircraft.

However, big programmes remain mostly unchanged with, for example, more than $3bn being spent next year both on the F/A-18 E/F Super Hornet tactical fighter, for which Boeing is the prime contractor, and the F-22 advanced tactical fighter for the air force. Meanwhile, spending would continue on the new joint strike fighter, with a total programme cost of $212bn.

Patrick Cronin, research director of the US Institute of Peace in Washington, said: "You are left thinking that this is a way of neutralising the Republicans in the next presidential campaign." He said billions of dollars would be spent on buying advanced systems for which there would be no likely opponent.

He said Mr Cohen had raised expectations when he went to the Defence Department in 1997 that he would embark on a campaign to start a revolution in defence business affairs, but little evidence of it had emerged.

Susan Hansen, a spokeswoman for the Pentagon, said the budget had recognised emerging threats – such as chemical and biological weapons. Mr Cohen had also previously increased proposed spending on ballistic missile defence. "We also have to realise that the Defence Department has an overwhelming advantage against any potential adversary. We like that and we want to keep that."

Republican critics of the administration have argued that the military was being "hollowed out" by successive real cuts in defence spending.

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1990=100.

UNITED STATES

	Exports	Visible trade balance	Current account balance	Ecu exch. rate	Effective exch. rate
1987	220.2	−131.8	−145.6	1.1541	107.8
1988	272.5	−100.2	−108.4	1.1833	100.5
1989	330.2	−99.3	−94.6	1.1017	104.9
1990	309.0	−79.3	−72.1	1.2745	100.0
1991	340.5	−53.5	−4.6	1.2391	98.5
1992	345.9	−65.2	−43.5	1.2957	96.5
1993	397.3	−98.7	−73.6	1.1705	99.5
1994	432.3	−127.0	−104.4	1.1857	97.6
1995	452.3	−122.8	−89.2	1.2928	91.8
1996	499.0	−135.9	−107.7	1.2526	96.6
1997	609.4	−180.5	−137.2	1.1309	104.4
4th qtr.1997	157.0	−41.5	−40.0	1.1245	106.4
1st qtr.1998	159.8	−47.9	−43.0	1.0874	109.1
2nd qtr.1998	151.6	−55.5	−51.4	1.1020	110.8
3rd qtr.1998	149.0	−53.2	−54.7	1.1196	112.6
January 1998	53.8	−14.6	n.a.	1.0873	109.6
February	52.5	−15.7	n.a.	1.0892	108.4
March	53.5	−17.6	n.a.	1.0857	109.1
April	51.2	−18.6	n.a.	1.0937	109.7
May	50.0	−19.4	n.a.	1.1102	110.2
June	50.5	−17.5	n.a.	1.1022	112.3
July	49.8	−17.9	n.a.	1.0992	113.0
August	50.0	−18.8	n.a.	1.1026	114.8
September	49.2	−16.7	n.a.	1.1589	109.9
October	49.5	−15.3	n.a.	1.2021	105.4
November	50.0	−16.9		1.1690	106.3
December				1.1762	105.2

JAPAN

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1987	194.7	83.7	72.8	166.58	104.7
1988	218.7	79.8	67.8	151.51	115.9
1989	245.5	70.8	60.1	151.87	110.8
1990	220.0	50.0	36.2	183.94	99.9
1991	249.4	77.7	59.2	166.44	108.4
1992	256.6	96.2	83.5	164.05	113.6
1993	300.3	118.6	110.8	130.31	136.5
1994	325.0	121.3	110.0	120.99	147.0
1995	331.1	102.8	87.7	121.43	154.4
1996	320.1	67.4	53.9	136.24	134.0
1997	361.8	89.2	83.3	136.84	126.1
4th qtr.1997	89.8	25.1	25.1	140.91	122.2
1st qtr.1998	89.0	27.4	26.6	139.32	121.2
2nd qtr.1998	83.2	28.2	24.3	149.56	114.3
3rd qtr.1998	81.5	26.8	29.1	156.64	110.5
January 1998	30.4	8.2	7.8	140.80	120.0
February	29.8	10.5	11.2	137.00	123.4
March	28.8	8.7	7.6	140.17	120.5
April	27.8	9.0	5.1	144.28	117.8
May	27.9	10.5	9.8	149.80	114.5
June	27.5	8.7	9.3	154.60	110.6
July	27.8	8.9	8.5	154.66	110.5
August	26.8	8.9	9.8	159.70	107.5
September	27.0	9.1	10.8	155.56	113.4
October	27.4	10.0	10.1	145.38	124.7
November	26.4	8.3	9.2	140.86	126.3
December				137.66	129.7

GERMANY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1987	*254.4*	*56.8*	*40.6*	*2.0710*	*97.3*
1988	*272.6*	*61.4*	*42.4*	*2.0739*	*96.6*
1989	*310.1*	*65.1*	*51.5*	*2.0681*	*95.9*
1990	324.8	51.5	38.4	2.0537	100.0
1991	327.6	11.1	−14.4	2.0480	99.2
1992	330.9	16.6	−14.8	2.0187	102.1
1993	325.2	30.4	−12.0	1.9337	108.1
1994	360.2	37.2	−17.1	1.9188	106.4
1995	405.0	46.0	−17.5	1.8509	111.9
1996	418.6	52.1	−11.0	1.8844	108.9
1997	454.3	58.4	−3.5	1.9584	103.9
4th qtr.1997	116.9	15.6	2.9	1.9740	103.3
1st qtr.1998	119.4	16.6	−3.7	1.9777	102.7
2nd qtr.1998	121.9	18.3	3.5	1.9756	103.7
3rd qtr.1998	120.3	17.6	−3.4	1.9716	104.7
January 1998	40.2	4.2	−7.0	1.9749	102.9
February	39.9	5.9	−0.4	1.9746	102.7
March	39.4	6.4	3.7	1.9835	102.5
April	41.7	6.3	1.1	1.9816	103.0
May	39.8	7.1	0.6	1.9697	104.1
June	40.3	5.0	1.8	1.9754	104.1
July	40.9	6.1	−0.3	1.9758	104.2
August	39.8	5.2	−2.2	1.9724	104.7
September	39.6	6.2	−1.0	1.9688	105.4
October				1.9699	105.8
November				1.9660	105.2
December				1.9627	105.1

FRANCE

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exch. rate
1987	128.3	−4.6	−3.7	6.9265	98.9
1988	141.9	−4.7	−3.4	7.0354	96.9
1989	162.9	−6.3	−3.6	7.0169	96.0
1990	170.1	−7.2	−7.2	6.9202	100.0
1991	175.4	−4.2	−4.8	6.9643	98.3
1992	182.5	4.5	2.9	6.8420	101.5
1993	179.6	13.3	8.0	6.6281	105.0
1994	198.9	12.6	5.4	6.5659	106.1
1995	219.7	10.4	6.4	6.4460	109.2
1996	230.2	13.8	16.4	6.4068	109.1
1997	255.6	27.1	35.1	6.5925	105.6
4th qtr.1997	67.3	7.0	10.2	6.6134	105.6
1st qtr.1998	67.5	6.2	7.8	6.6273	105.0
2nd qtr.1998	68.0	6.0	8.3	6.6236	105.7
3rd qtr.1998	68.2	7.0		6.6105	106.5
January 1998	22.5	2.3	2.6	6.6137	105.2
February	22.6	2.0	3.6	6.6189	105.0
March	22.4	1.9	1.6	6.6493	104.8
April	22.6	2.1	3.4	6.6428	105.1
May	22.6	1.9	3.4	6.6051	106.1
June	22.8	2.1	1.7	6.6235	105.9
July	22.3	1.9	4.2	6.6243	106.0
August	22.4	2.0	2.0	6.6123	106.4
September		3.2		6.5949	107.1
October				6.5949	107.6
November				6.5923	107.1
December				6.5819	107.1

ITALY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1987	101.0	−7.7	−1.9	1494.3	100.9
1988	108.3	−8.9	−5.4	1536.8	97.6
1989	127.8	−11.3	−10.7	1509.2	98.5
1990	133.8	−9.3	−12.9	1523.2	100.0
1991	137.0	−10.5	−19.2	1531.3	98.6
1992	137.9	−6.0	−22.6	1591.5	95.5
1993	144.9	18.1	8.7	1836.7	80.4
1994	161.4	18.8	12.0	1908.6	76.9
1995	181.0	21.6	20.7	2106.4	69.3
1996	201.3	35.0	32.8	1932.1	75.7
1997	209.2	27.2	32.5	1924.0	76.3
4th qtr.1997	55.6	6.6	8.4	1934.8	76.1
1st qtr.1998	52.4	3.2	2.4	1948.6	75.3
2nd qtr.1998	56.9	6.8	6.9	1948.7	75.7
3rd qtr.1998	52.2	8.8		1945.8	76.3
January 1998	14.4	0.0	−2.1	1943.7	75.4
February	17.6	0.8	1.4	1948.7	75.2
March	20.4	2.2	3.0	1953.3	75.2
April	18.8	1.5	0.8	1957.8	75.2
May	18.7	2.8	2.7	1942.5	76.0
June	19.6	2.6	3.6	1946.2	76.0
July	21.8	5.4	−1.4	1948.1	76.0
August	12.8	2.7		1946.0	76.2
September	17.8	0.7		1943.2	76.6
October				1948.8	76.8
November				1946.6	76.4
December				1943.5	76.4

UNITED KINGDOM

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1987	112.3	−16.4	−6.8	0.7047	99.4
1988	120.9	−32.3	−24.8	0.6643	105.4
1989	137.0	−36.7	−33.3	0.6728	102.3
1990	142.3	−26.3	−26.2	0.7150	100.0
1991	147.7	−14.7	−11.4	0.7002	100.7
1992	145.9	−17.8	−13.8	0.7359	96.9
1993	156.0	−17.3	−13.2	0.7780	89.0
1994	174.1	−14.4	−2.1	0.7736	89.2
1995	186.9	−14.1	−4.5	0.8190	84.8
1996	208.0	−15.8	−2.3	0.8026	88.3
1997	248.4	−18.8	6.5	0.6906	100.5
4th qtr.1997	63.5	−5.9	0.8	0.6772	103.0
1st qtr.1998	61.9	−6.8	−2.1	0.6606	105.4
2nd qtr.1998	61.7	−8.4	−2.0	0.6665	105.4
3rd qtr.1998	60.1	−7.7	3.4	0.6774	104.4
January 1998	20.5	−1.4	n.a.	0.6648	104.6
February	20.5	−3.0	n.a.	0.6638	104.7
March	21.1	−2.4	n.a.	0.6532	106.8
April	20.9	−2.0	n.a.	0.6536	107.1
May	20.0	−2.8	n.a.	0.6783	103.4
June	20.8	−2.3	n.a.	0.6783	105.4
July	20.5	−2.2	n.a.	0.6688	105.3
August	20.3	−1.9	n.a.	0.6757	104.6
September	19.3	−3.6	n.a.	0.6877	103.3
October	18.8	−2.3	n.a.	0.7091	100.7
November	18.9	−3.1	n.a.	0.7034	100.6
December				0.7041	100.4

Due to the introduction of the Single Market, EC countries are currently changing to a new system of compiling trade statistics. All trade figures are seasonally adjusted, except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from exports. Export and import data are calculated on the FOB (free on board) basis, except for German and Italian imports which use the CIF method (including carriage, insurance and freight charges). German data up to and including June 1990, shown in italics, refer to the former West Germany. The nominal effective exchange rates are period averages of Bank of England trade-weighted indices. Data supplied by Datastream and WEFA from national government and central bank sources.

Lewinsky testifies on Clinton

By Mark Suzman in Washington

Republican prosecutors and White House lawyers yesterday questioned Monica Lewinsky under oath for several hours at a Washington hotel to establish whether she had any new information about her affair with President Bill Clinton that could affect his impeachment trial.

Ed Bryant, a Tennessee congressman who is one of the 13 House trial managers, opened the videotaped questioning as he sought to clarify several points relating to the charges that Mr Clinton committed perjury and obstructed justice in covering up the affair.

He was due to be followed by Nicole Seligman, one of the president's personal lawyers. A senator from each party was present throughout.

Ms Lewinsky is the first of three witnesses to be deposed, before the Senate decides whether any live testimony is needed in the trial or whether it should move on to closing arguments and a final vote on the charges next week. Vernon Jordan, a Washington lawyer and close friend of the president's, will be questioned today and Sidney Blumenthal, a top White House aide will follow tomorrow.

All of the witnesses have already provided extensive testimony to Kenneth Starr, the independent counsel. Yesterday's deposition came amid a growing uproar over reports that Mr Starr is considering trying to indict Mr Clinton even if the Senate acquits him. The White House reacted angrily to the revelation and said it would file a formal complaint in federal court about continued press leaks from Mr Starr's office.

هكذا من الأصل

Real's slide halted as panic abates

Debt servicing fears mount

CONFLICTS OF INTEREST ADVICE PROMPTED BY COURT DECISION IN DISPUTE BETWEEN BRUNEI PRINCE AND KPMG

Firms are urged to review their 'Chinese walls'

By Jim Kelly in London

Lawyers are advising financial organisations to review how they build and maintain "Chinese walls" following a landmark judgment on managing conflicts of interest from the House of Lords, the unelected upper house of parliament, acting as the highest appeal court.

"Chinese walls" are barriers erected to prevent leaks of confidential information.

The law lords' decision in the case of Prince Jefri of Brunei versus KPMG has also prompted suggestions that sector-wide codes of best practice should be developed for "Chinese walls" to protect those using them against court action.

"Banks and other financial institutions may wish to review their policies with regard to conflicts and 'Chinese walls' as a consequence of the decision," said lawyers at Lovell White Durrant, which represented Prince Jefri.

Lawyers are also suggesting that the judgment – in which KPMG was prevented from acting for the Brunei authorities against Prince Jefri, their former client – has far-reaching specific consequences for lawyers and accountants. "The logic of the decision suggests that there could be a need for greater institutionalisation of information barriers in all practice areas – such as corporate finance, tax, audit or consultancy," said Barlow Lyde & Gilbert.

While the firm said it was unlikely the courts would enforce the full impact of the judgment, it added: "Professionals would do well to consider whether there are additional steps they can now take with a view to avoiding challenge to the 'Chinese walls' they routinely erect in non-litigious practice areas."

The 16-page law lords' judgment is still being studied by lawyers – particularly at the Big Five accountancy firms – and there is agreement that while its technical impact may be restricted it has raised much wider concerns over the use of "Chinese walls".

"Accountancy firms and their clients need to take the question of conflicts of interests and inadvertent leakage of confidential information more seriously," Robson Rhodes, the accountants, said in a newsletter.

While there will be suspicions lawyers are being cautious, there is genuine confusion in several professions about the impact of the judgment – including actuaries and corporate financiers.

"I wonder what clients would think if they realised that so-called "Chinese walls" are sometimes operating across open-plan offices and with groups of people who mix on a daily basis," said one corporate lawyer.

Jeremy Cole, a partner at Lovells, said that, on balance, the law lords' judgment appeared to be restricted to the very unusual circumstances of the KPMG case in which the law lords doubted that its ad hoc "Chinese Walls" could be shown to be leakproof.

Thatcher's heirs seek youth and new radicalism

William Hague's push to create a compassionate Conservative party has backfired and he still needs new ideas. **Deborah Hargreaves** reports

Many politicians have tried to define what it is to be British. For John Major, the former Conservative prime minister, it was warm beer and cricket on the village green. For Tony Blair, the Labour prime minister, it is "Cool Britannia" with its fashion designers and rock musicians.

William Hague, Mr Major's successor as Conservative leader and the party's youngest leader this century, last month painted his picture of Britain as "multi-ethnic, brassy, self-confident and international". In a speech to a rightwing think-tank, Mr Hague sought to portray the Conservatives as a modern party of the future.

But Mr Hague's definition has been widely lampooned. His effort to capture the public's imagination for a more compassionate Conservative party – echoing George W. Bush, the favourite to win the US Republican presidential nomination – backfired.

It is the latest miscalculation by the inexperienced Mr Hague, whose efforts to relaunch the party after its disastrous election defeat have met with little success. A fervent Conservative since his schooldays, the 38-year-old Mr Hague's sole experience of cabinet office has been as chief minister for Wales in the Major government.

The Conservatives were swept from power in 1997 by a landslide Labour victory after 18 years in power. The party was left with just 165 House of Commons seats compared with Labour's 418. Traditional Conservative voters deserted the party in crowds and Mr Hague has spent the past 18 months trying to lure them back.

But an opinion poll last week showed that support was still falling – just 24 per cent of people said they would vote Conservative, the lowest rating in 18 months. Labour's approval rating rose two points to 56 per cent – its highest since late 1997.

Mr Hague's advisers admitted recently that the party that spawned the Thatcher revolution and exported the privatisation of public utilities had run out of ideas.

Almost half way through the current parliament, Mr Hague has given little indication of the platform on which the party hopes to fight the next national election. He is now backing the creation of a new think-tank to generate radical policy ideas.

But he must be wary of taking the party too far to the right. Some senior Conservatives are already unhappy about Mr Hague's uncompromising stance on the euro – ruling out UK membership for the life of the next parliament.

Two of the party's European parliament members left last month to form a breakaway pro-European party. One of them said in a letter to Mr Hague that opposition to British membership of the single currency was not in the national interest.

Adding to his woes, Mr Hague is embroiled in a dispute with members of his shadow cabinet.

A senior party member urged Mr Hague last week to fire shadow ministers who had been members of the Major government because voters associate them with failure. "Every time they go on television, they are costing us votes," one Conservative said of John Redwood, industry spokesman. Mr Redwood is an arch Eurosceptic who unsuccessfully challenged Mr Major for the party leadership in 1995. The comment was also aimed at Michael Howard, shadow foreign secretary. Mr Hague was forced to issue reassurances that he was not planning a cull.

The Conservative party appears to have a peculiar propensity for undermining its leader.

Several recent occasions that should have seen Mr Hague taking the government to task over policy errors have been dominated by arguments within his party.

His efforts to reform the House of Lords were undermined when he discovered that Lord Cranborne, leader of the Conservative members in the House of Lords, had already done a deal with Mr Blair.

Mr Hague, a member of the party since he was a teenager, desperately needs to attract younger members. But he has to take control of his colleagues before directing his energies towards recruitment.

Allegations of sleaze returned to haunt the Conservatives at the weekend with the sudden admission by Tom Spencer, a member of the European parliament, that Customs officers at Heathrow airport had found him in possession of cannabis and homosexual pornography. Mr Spencer's wife Liz is standing by him, but he will not run for his English district again PA

Scots nationalists set out tough rules for landowners

By James Buxton in Edinburgh

An administration led by the Scottish National party would require estate owners in Scotland to make legally enforceable contracts with local residents, the party announced yesterday. The contracts would state owners' responsibilities and rights.

The SNP would also create land councils in rural areas on which community and landowners would sit. "Community contracts and locality land councils will ensure communities have a tighter hold over the land they live on," Roseanna Cunningham, the party's land spokesperson, said yesterday.

Her comments came in evidence to the Scottish Grand Committee of all Scottish MPs. She said her party would legislate to control bad landowners while the Labour party would only use powers of encouragement.

Labour proposes giving community groups the right to buy estates that come up for sale at a price set by a government-appointed valuer – even if this was less than that offered by another buyer. In extreme cases the government would be able to compulsorily purchase badly run properties. It would normally rely on landowners obeying a voluntary code of conduct. The SNP's community contracts would regulate public access, public consultation over development and govern the use an estate made of public funds.

Donald Dewar, chief minister for Scotland in the UK government, said the SNP's proposals would produce "a massive bureaucracy of no real value to anybody at all". Andrew Dingwall-Fordyce, convener of the Scottish Landowners Federation, said the SNP's proposals would drive down land prices, jeopardise employment and threaten the already fragile rural economy. "Locality land councils appear to offer the awful prospect of compromising the work of good land managers and acting as a disincentive to investment," he said.

Alleged IRA sniper faces 37 terrorism charges

By John Murray Brown in Dublin

A man alleged to be an Irish Republican Army border sniper went on trial for murder in Northern Ireland yesterday, with the prosecution taking more than half an hour to read out the charges.

Bernard Michael McGinn, 41, from Castleblaney in county Monaghan in the Irish Republic, is accused of murdering Lance Bombardier Stephen Restorick, a British soldier shot dead at a security checkpoint in Northern Ireland in 1997. He was the last British soldier in the region to be killed by terrorists.

Mr McGinn is charged with 37 separate terrorist offences, including the murder of two other soldiers some years earlier. John Creaney, the prosecuting lawyer, told the court how Mr McGinn and three other men, all from Northern Ireland, were arrested after a 16-strong British army unit swooped on a remote farm near the Irish border.

All four put up a "considerable struggle" as soldiers tried to put them into forensic body covers before being taken for questioning, the court heard. A fifth man was accused of providing the hayshed used in the alleged conspiracy. The five deny all charges.

The soldiers found a Mazda car containing an elaborate mobile firing platform. A cavity had been created in the back of the car in which a gunman could crouch and fire. Inside were found a high velocity Barrett sniper rifle, an AK 47 assault rifle and ammunition.

Mr McGinn smiled and laughed at one point as the prosecution read out the charges, which included explosives offences and membership of the IRA. Mr Creaney said such evidence clearly showed that the men were intent on using the weapons to kill.

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THROUGHPUT AT HEATHROW COURT IS WARNED OF US-STYLE SCRAMBLE AND BREACHES OF EUROPEAN UNION LAW

Slot trades by airlines are challenged

By John Mason, Law Courts Correspondent

The trade between airlines in take-off and landing slots at London's Heathrow airport breaches European Union law and could lead to a US-style free-for-all in which big carriers will dominate the market, the High Court in London was told yesterday.

The claim was made by lawyers acting for the Guernsey Transport Board, which is mounting the first legal challenge to the common, but legally disputed, practice of airlines selling slots to each other.

The High Court proceedings, which could lead to a protracted legal case before the European Court, are being closely watched by the aviation industry. The practice of selling slots is of vital commercial importance to the industry but its legality has yet to be established.

Michael Beloff, a lawyer for the Guernsey board, said the practice of airlines buying and selling slots to each other breached EU law intended to regulate the aviation industry. EU law was explicitly intended to ensure an orderly distribution of slots and avoid a free-market solution that would lead to the most powerful players dominating the aviation industry, he said.

The dispute has arisen over the sale of slots between British Airways and KLM UK, the British subsidiary of the Dutch airline. KLM UK stopped flying between Heathrow and Guernsey last March and sold its eight daily slots to BA. Guernsey is the second largest of the Channel Islands between England and France.

In return, BA gave KLM eight slots at less convenient times. KLM, which had no use for these slots, returned them to the "pool" for use by other airlines. It was not disputed that KLM UK was paid by BA for the slots.

Mr Beloff said EU law allowed airlines to transfer slots in limited situations, such as a genuine exchange or where a takeover was involved. However, the law did not allow for trading in slots which the seller had no prospect of using. European transport commissioner Neil Kinnock had made plain last year at a Financial Times aviation conference that slots could not be bought and sold, Mr Beloff said.

Mr Beloff said Airport Co-ordination, the company that allocated Heathrow slots, had acted wrongly over the transfer of slots from KLM UK to BA. It had been wrong to say that it was not its business what happened to the slots after they had been issued.

The hearing is expected to end tomorrow.

Fracas 'was old-fashioned Irish sing-song and not air rage'

Twelve airline passengers ejected from a London-Jamaica flight diverted to the US said yesterday that what cabin staff interpreted as a fight was an "old fashioned Irish sing-song" disrupted by another passenger hurling a drink. The 12 were left at Norfolk, Virginia, after the pilot diverted the Airtours flight. Miles Connor, from south London, one of the 12, said: "No punches were thrown, just a few words were exchanged – but they threw all 12 of us off, there were no blows, nothing. The biggest injustice is that the other man, who threw the drink, was allowed to carry on on the flight." Airtours said it planned to act against the 12 under air navigation law and they might have to meet the cost of the diversion. They would also have to pay to return to London.

Blair steps into storm over England soccer manager

Tony Blair, the prime minister, yesterday stepped into the storm over Glenn Hoddle, the England soccer team's manager, **Jimmy Burns writes.** Mr Hoddle was under fire for reportedly telling The Times newspaper: "You and I have been physically given two hands and two legs and a half-decent brain ... some people have not been born like that for a reason. The karma is working from another lifetime." Mr Blair called the comments "very offensive" and suggested he might have to resign. Mr Hoddle's fate could be sealed today at his meeting with senior officials of the Football Association. The Nationwide building society, English soccer's biggest sponsor, disassociated itself from Mr Hoddle's reported remarks. "Glenn Hoddle ... has a responsibility to ensure that his personal views shouldn't be confused with those of the England team, the Football Association or its sponsors," it said yesterday. Nationwide insisted last night that its new £15m ($24.5m) sponsorship deal with the FA was not in jeopardy. The first match of Nationwide's sponsorship package is set for February 10 when England play world champions France.

Dennis Roach, Mr Hoddle's agent, said his client had "denied categorically that he ever said anything about disabled people being punished". He added that Mr Hoddle intended to issue a writ for libel against The Times. Mr Hoddle yesterday refused to resign.

Glenn Hoddle: refused to resign

NEWS DIGEST

GOVERNMENT FINANCES

Pay straitjacket loosened for public sector workers

The government yesterday loosened its straitjacket on public sector pay by awarding a 4.1 per cent average rise to 1.25m doctors, nurses, teachers, members of the armed forces and public officials. It said the salary recommendations of five independent pay review bodies would be implemented in full, without staging, for the first time in five years. But trade unions were expecting a more attractive settlement, following leaks of the most generous award – a 12 per cent increase in pay for newly qualified nurses.

Ministers found themselves in the embarrassing position of defending themselves against the apparently contradictory charges of being parsimonious and taking undue risks with inflation and the public finances.

The prime minister's spokesman said the Bank of England, the UK central bank, was unlikely to take a dim view of the pay award since it had written in its summer inflation report that "an inflation target of 2.5 per cent is consistent with average annual nominal earnings growth of 4.5 per cent". **Robert Peston, London**

THE ECONOMY

Manufacturers recover slightly

The latest UK purchasing managers index yesterday revealed a slight recovery in output and new orders. But both remained well below the 50 "break even" level, implying activity is shrinking. Manufacturers also upped the pace of redundancies and sold off stocks, according to the index, while there was little sign of inflation as materials prices continued to fall. The data come as the monetary policy committee of the Bank of England, the UK central bank, prepares to meet for its latest decision on interest rates on Thursday. Most City analysts a cut from the current level of 6 per cent. In the UK, the index of prices paid fell to its lowest level in the survey's seven-year history. The Chartered Institute of Purchasing and Supply said the fall was caused by greater discounting by suppliers, domestically and overseas, with prices being driven lower by weaker global demand and an excess supply of many goods. **Richard Adams, London**

PUBLIC-PRIVATE PROJECTS

Ministers to issue guidance

The government is determined to drive forward the private finance initiative, but only as part of a wider partnership between the public sector and private capital, Alan Milburn, a senior Treasury minister, is to say today. The PFI was inherited from the previous government and aims to bring private funding to public projects. Mr Milburn will announce that the standard model clauses for PFI contracts should be published by the end of this month and that the government will produce its final guidance on the treatment of risk in PFI contracts by the end of March.

The risk guidance is aimed at settling the Treasury's dispute with the Accounting Standards Board over which projects should go on the government balance sheet and which should do not. Mr Milburn believes that once the model clauses and guidance are published, procurement of PFI projects should be more swift and the bidding costs lower. He is the first cabinet minister to have direct responsibility for PFI deals. **Nicholas Timmins and Simon Buckby, London**

BSE CRISIS

12 died from CJD in 1998

Twelve people died in the UK last year from the new variant of Creutzfeldt-Jakob disease linked to BSE, the Department of Health said yesterday. The death toll was 10 in 1997, 10 in 1996 and three in 1995. Scientists say it is still too early to predict even roughly how many people will succumb to disease as a result of eating contaminated beef in the 1980s because of the uncertainties about the transmission of BSE to humans. But specialists at St Mary's Hospital in London say at least five living patients have symptoms of the fatal brain disease. A new diagnostic test on their tonsils has shown clear signs of infectious nvCJD "prions". **Clive Cookson, London**

MOTORCYCLES

Grey market boosts sales

Plunging prices, thanks to cheap "grey" imports, and dissatisfaction with other commuting methods are driving the UK motorcycle market towards its best year since the early 1980s. The 150,000 sales for this year predicted by Kevin Kelly, director of the Motorcycle Retailers Association, represent a leap of one-quarter over 1998 and well over triple the sales of five years ago. Total sales increasedby by more than 31 per cent, year-on-year, in the first 20 days of January. Scooters have re-emerged as fashionable transport to an extent not seen since the 1970s. A new generation of stylish machines from European producers, led by Peugeot of France, are displacing Japanese makers from their traditional leadership. **John Griffiths, London**

Procter fights back in soap war

By John Willman, Consumer Industries Editor

Procter & Gamble of the US is raising the stakes in the long soap war with the Anglo-Dutch conglomerate Unilever by launching its own version of the solid detergent tablets that have proved so successful for its arch-rival. The US group plans to launch Ariel Discs in Europe in April after a year's trial in two towns in northern England.

Lever Brothers, Unilever's detergent subsidiary, has seized 8.5 per cent of the UK market with Persil Tablets since launching the new product last May. One in six households has tried Tablets, which are added to the wash in a nylon mesh bag designed to ensure they fully dissolve.

The success has restored brand leadership for Persil, lost to Procter's Ariel after the 1994 Persil Power fiasco. Then Lever Brothers had to withdraw a new formulation after its patented "accelerator" ingredient was found to weaken fabrics and leave colours faded.

Similar success has followed in other European countries, and last month Procter reported a fall in its detergent volumes in Europe – blaming "continued competitive pressures in laundry and cleaning, primarily related to laundry tablet initiatives".

Now it is ready to launch its counter-attack with Discs, which are placed in the detergent drawer of an automatic washing machine, like conventional soap powders, rather than being added directly to the wash in the drum. The group said it had overtaken Unilever in automatic washing machine powders, concentrated powders and liquids – even though these had all been pioneered by Unilever.

"We hope history will repeat itself," it said.

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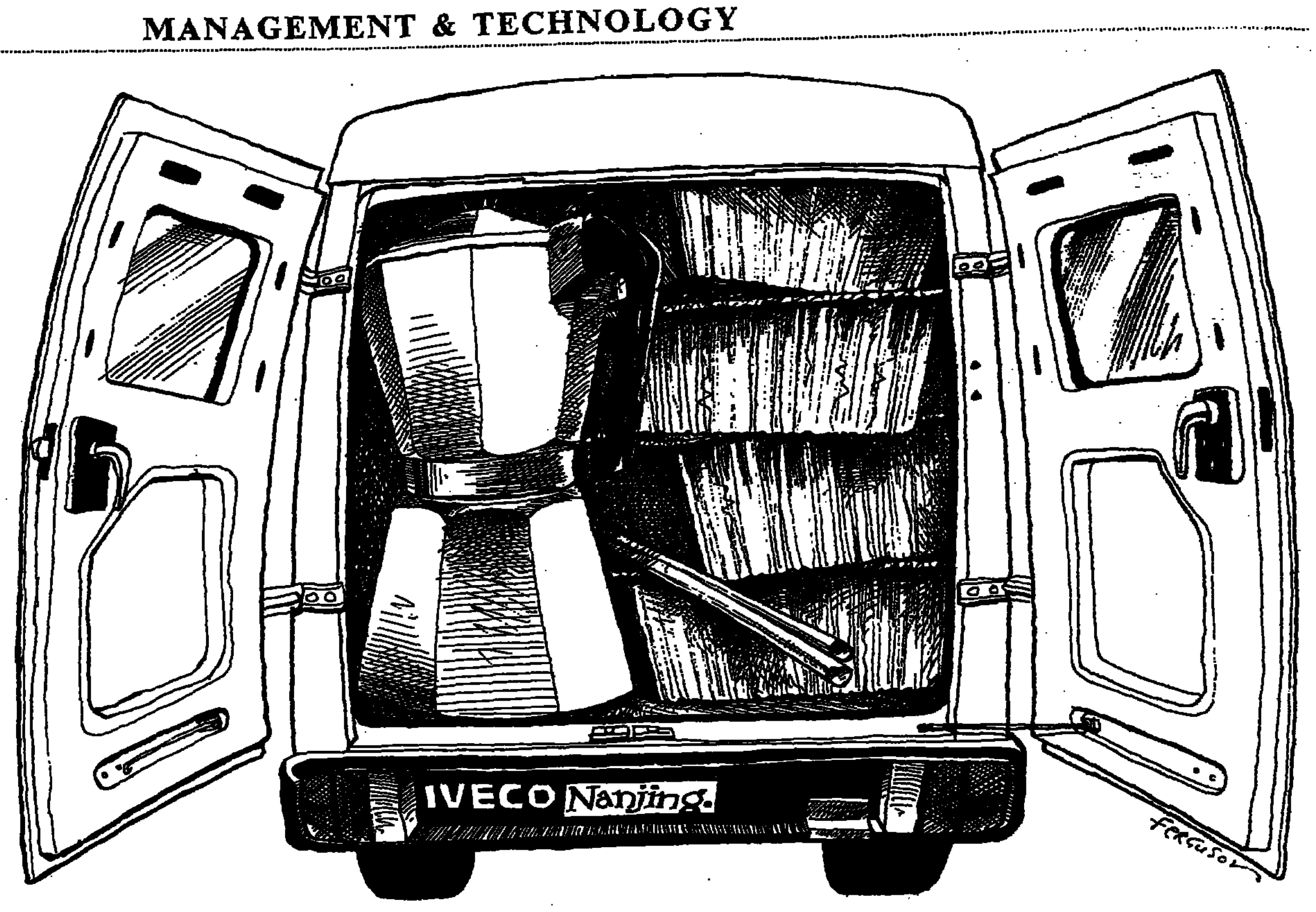
MANAGEMENT EUROPEANS IN CHINA

Little Italy comes to China town

Truck-maker Iveco found it had to train Chinese workers to speak Italian and adopt European practices, says **James Harding**



"Signora, due caffe per favore," Camillo Donati calls from the comfortable leather sofa in his office overlooking Nanjing, China.

His secretary, Ms Wu, promptly brings in two small cups. Amid the rich aroma of Italian espresso, she passes on a couple of telephone messages in flawless Italian, then leaves her boss to talk about the importance of cultural cross-fertilisation for foreign businesses in China.

Mr Donati is the chief representative in China of Iveco, the truck-making subsidiary of Fiat and the largest Italian investor in the country. He has lived in the Jinling Hotel in Nanjing for the past 11 years and is the engineer of what is arguably the most ambitious training and cultural exchange programme undertaken by any European business in the People's Republic.

Dispensing espresso is therefore more than just the eccentricity of an Italian abroad. It is part of a pattern of Sino-Italian exchange that he considers essential to the success of Iveco in China.

"We have tried to give the Chinese the possibility to understand our industrial culture and the opportunity to live our social life," says Mr Donati. Iveco selected nearly 400 Chinese engineers and workers, trained them in Italian and transferred them to Italian factories in the late 1980s.

"We tried to eliminate the differences in style – how we live and how we speak."

Iveco, which is now the best-known name in light commercial vehicles in China, was one of the first to come to the country after it opened to the outside world in the late 1970s. Mr Donati came for the first time in 1983 to start discussions on a contract to license Iveco technologies.

"The Chinese wanted the technology. I said 'No'," he recalls. "We will give you know-how." In 1986 Mr Donati arranged for 32 Italians to come to Nanjing to teach 370 local mechanics and other staff basic Italian.

Then they were all transferred to Iveco's various factories in Italy to gain on-site technical expertise in how the trucks and vans were assembled, as well as a sense of the corporate and national culture.

For Iveco, more than most international automotive groups, such a substantial language programme was a necessity. "At that time we had a problem in how to communicate," explains Mr Donati. "The Chinese didn't speak English and, in fact, the Italians too didn't speak such good English either."

There were loftier reasons for doing more than merely handing over the technical specifications on paper. "If you wanted to plant a tree in China, then you had to create the ground for it that we had in Italy," he explains.

Critically there was $7m (£4.2m) in Italian government aid for the technical training of Chinese people available to fund the exchange programme, as well as $200m in soft loans and export loans to help the Chinese acquire the Iveco technology and establish their own truck factory.

Iveco's extensive training programme stands in contrast to standard practice at many other foreign manufacturing ventures in China. Often, overseas management pays lip service to the importance of training, language teaching and cultural exchange. As a result, Mr Donati suggests, Sino-foreign joint venture partners spend years bickering, jostling for power and misunderstanding each others' intentions.

Indeed Iveco's approach in China even stands out in comparison with the experience of another arm of Fiat, namely the Piaggio joint venture making mopeds in Guangdong.

Recently Piaggio has slimmed down its expatriate presence, but it did not make the early commitment to training and exchange that has been the hallmark of Iveco's China development.

Instead, Piaggio for a long time had 15 expensive expats on site at a 450-person plant in Guangdong, roughly double the number of Italians now at Iveco's 3,000-person operation in Nanjing.

The fostering of a "little Italy", or at least a little Italian business culture, in Nanjing has been the foundation, Mr Donati says, for Iveco's expansion in the 1990s. In 1992, the Chinese approached the Italian company again to discuss a full-scale manufacturing joint venture.

'We have tried to give the Chinese the possibility to understand our industrial culture'

Some industry observers suggest that such an opportunity was available to Iveco – and even Fiat – much earlier had they pushed in the mid-1980s. It took four years from the start of discussions on Naveco, the Iveco joint venture in Nanjing, before it started production in 1996 – evidence, according to some analysts, of Iveco's tendency to take longer than others to seize chances in China.

Mr Donati, however, was happy to have secured a 50-50 joint venture at a time when most other foreign joint venture partners in the motor industry were relegated to minority stakes.

Iveco invested $200m in the joint venture, which is intended to produce 60,000 light commercial vehicles and 75,000 engines a year. On an operating basis, the plant made a profit in 1997 of $25m and analysts expect it could achieve nearly double that for 1998. But in terms of Iveco's total investment, the project is expected to begin to show a return only after 2002.

For those foreign investors who may feel that is a long wait, Mr Donati plainly has little patience. "Nobody can do business here with a short-term strategy. You have to have a long-term strategy." How long? "Thirty years," he says emphatically.

Foreign investors also have to be prepared to adapt themselves, as well as train their Chinese partners. "Look at the Vatican…It has adapted the liturgy to different circumstances," says Mr Donati, noting that Roman Catholics attend Mass with an organ playing in Rome, while in some African churches drums accompany the service.

"What does it mean to be an international company? It is a mental issue: to adapt your know-how to the local conditions," he says.

Mr Donati is happy to be seen as pro-China. Iveco is developing special vans and light trucks for the police and the People's Liberation Army. He is "proud" that the Chinese army crossed the border to Hong Kong in 1997 in Iveco vehicles.

Iveco is now looking at a number of new projects. The company plans a fresh 50-50 joint venture in China with investment of up to L300bn (£107m) to build buses. The joint venture factory in Changzhou is intended to produce 8,000 buses a year at full capacity. The top management and departmental heads at the new joint venture will undertake another training programme in Italy.

Iveco has also been considering another $10m investment in Nanjing to expand engine production to make 30,000 units a year to export to Brazil. But following the devaluation of the Brazilian Real, Mr Donati says Iveco must reconsider. "We have to see. Maybe it will not be a problem. But it is a new factor."

Even while Iveco is looking to expand in China, the number of Italians employed in Nanjing is shrinking. At the main plant there are 3,000 workers. "We expatriated only a very few people. There are only eight," he says, acknowledging that the financial controller comes from Iveco. "But day-by-day that will decrease. We are developing the local managers."

TIM JACKSON
ON THE WEB

Cash is the key to a true portal

Goto.com has found a way to make searching both easy and profitable in itself

The word "portal", as used in the internet business to describe companies such as Yahoo!, Lycos and Excite, has become a misnomer. It is normally applied to search engines that have turned themselves into catch-all services, offering everything from free e-mail to online auctions. Yet there is a paradox in the broadening of their services.

For a portal is something you go through, and these companies are doing everything they can to delay your departure from their site.

Goto.com, based in Los Angeles, claims by contrast to be the "only true portal". Jeffrey Brewer, chief executive, says his web site offers a single, simple service: internet searches, where you type in keywords and get back a list of web sites.

While other portals offer search as a free service but make money from advertising or other activities, his company has found a way to make searching itself profitable. Here is how it works.

With normal search engines, computer scientists devote considerable effort to ranking the web pages listed in order of relevance. They fight constantly with web site owners who try to seed their web pages with words and phrases that will fool the search engines into placing them higher.

At Goto.com, the principle is simple. To appear at the top of a search listing, all a company has to do is pay. Web sites can bid, ranging upwards from 1 cent, for each visit to their site that comes from a response to a specific Goto.com search.

The company offering the highest price will be listed first, and so on. If the visitor doesn't click, nobody pays anything; if no advertisers have bought listings, the sites will be shown in order of relevance using technology provided by Inktomi.

This may sound unfriendly to users. But Goto.com's founder, Bill Gross of the incubation company IdeaLab!, realised correctly that in many cases the company that is willing to pay most to reach someone searching for a particular word or phrase is likely to be precisely the company offering them what they are looking for.

How does this work in practice? If you search at *www.goto.com* for the word "software", the first site listed will be WebAuction, which pays Goto.com 59 cents each time you click on its link. The highest offer on "books" is 38 cents; "vacations" 36 cents; "porn" 28 cents; "mutual funds" 25 cents; and "pensions" five cents. Mr Brewer says some companies are willing to pay $2.83 for each visit resulting from such searches.

This can be an attractive business. A typical search engine would be unlikely to generate more than $200 per 1,000 page views by selling advertisements targeted by search words.

Mr Brewer reports that on many Goto.com pages, 20 per cent of visitors click the first link listed, 9 per cent the second, and 5 per cent the third. If the "click through rate" is very high, the yield may be as much as $2 for each page view; meaning $2,000 CPM (cost per thousand impressions).

The service started in June, raising $6m from venture capitalists including Draper Fisher and IdeaLab!'s financing affiliate. It recently closed a round of financing in which investors paid $20m for 28 per cent of the business. According to the latest figures, it is the 24th busiest site on the Web, and generates 100m page views a month. That is impressive in only half a year.

Mr Brewer expects the company to be profitable within 18 months, and has two new weapons. One is an affiliates programme, by which the company has signed up 6,000 partners displaying buttons pointing to its site. Each visit earns a partner 2 cents. Another initiative is to offer "co-branded" search functions. *Theglobe.com*, a community site in the US, uses Goto.com as a search engine and revenue from the clicks is shared between the two companies.

The beauty of the system is that because of the way that links work in Goto.com's search service, the search can be executed entirely from the site of this or any other partner without interfering in Goto.com's ability to account for clicks and collect revenue.

There is only one apparent flaw. Many sites offer advertisers the ability to target users in particular countries: Goto.com does not. An e-commerce merchant that serves only the US may not wish to pay for visitors from Africa.

Mr Brewer says Goto.com will implement a national-specific targeting service at some point. The only problem is that it is hard to see how to do this while maintaining the openness of revealing to the visitor the price that has been paid per click. But this remains an exciting business, and a clever idea well-executed.

tim.jackson@pobox.com

INFORMATION TECHNOLOGY VIRTUAL REALITY

So near and yet so far

Commercial opportunities have proved elusive for pioneers of VR on the internet. **Geoff Nairn** explains the industry's difficulties

At first sight, virtual reality seems a technology tailor-made for the fantasy world of the internet. For many pioneers of web-based VR, however, commercial opportunities have proved illusory.

With the growth in popularity of the internet, the VR industry saw a chance to expand beyond its niches in arcade games and product development and tap a vast new consumer market.

"Growing VR penetration on the desktop, in large part driven by the internet, could create a huge user base for VR," predicted Ovum, the UK consultancy, in 1996.

Morgan Stanley, the investment bank, predicted there would be 150m interactive web users by 2000 and the industry rushed to turn web sites into interactive 3D worlds. Intel's Mediadome web site shows several examples of the technology including a virtual visit to Venice, a football simulation and a virtual art gallery.

But the market has failed to live up to early expectations. Most web sites see VR as too exotic and offering little benefit over mainstream multimedia technologies.

The big names of the internet industry have provided lukewarm support. Microsoft and Sun Microsystems are working on 3D web technologies but the projects have yet to deliver commercial products.

The biggest setback came this year when Silicon Graphics, the large US computer manufacturer, announced it would abandon web-based VR. The company was a leader in this field and helped unite previously fragmented initiatives around a single standard, called Virtual Reality Modelling Language (VRML).

But Silicon Graphics decided VR software was no longer a core activity and tried to sell its VR division, called Cosmo Software, to Sony, another VR pioneer. This deal fell through and Cosmo Software was acquired by Platinum Technology, a big US software house.

The sale caused many VR enthusiasts to fear the worst as Platinum was not a familiar name in the close-knit 3D graphics community. Andrew Filipowski, chief executive of Platinum, insists he is committed to VR but will steer it in a different direction. "Platinum wants to take VR out of entertainment and into the business market," he says.

The company plans to use the VR technology it has acquired to develop 3D interfaces for a range of business applications – visualising complex relationships between data in databases, for example. "The battleground of the future will be the user interface," says Mr Filipowski.

Computer Associates, a rival to Platinum, is also working in this area and between them they have acquired five VR software houses in recent years. They see more promise in applying VR to this new market of "business visualisation" than in creating virtual worlds on the internet.

So, does VR still have a future in cyberspace? John Chiplin, chief executive of the small UK-based software house Superscape VR, believes so. "VR is still happening on the web but the technology has been tremendously over-hyped," he says. Superscape pioneered VR developments on the internet and half the company's revenues – £4.2m ($6.9m) (€6.07m) in the 1998 fiscal year – now come from web-based products.

Today, 500 web sites use Superscape's proprietary Viscape technology. A typical application is the VR game on the web site promoting *I Still Know What You Did Last Summer*, a new film from Sony's Columbia Tri-Star division. The game requires users to first download the Viscape "plug-in" – a small program that runs inside the browser – and this has been a big stumbling block in the development of web-based VR.

'VR is still happening on the web but the technology has been over-hyped'

Unless there is a compelling reason, most people do not bother downloading the plug-ins or more sophisticated VR "players".

Another problem has been the proliferation of proprietary standards, requiring users to download several players or plug-ins. VRML was meant to end this confusion but the first VRML products were not as compatible as the industry claimed.

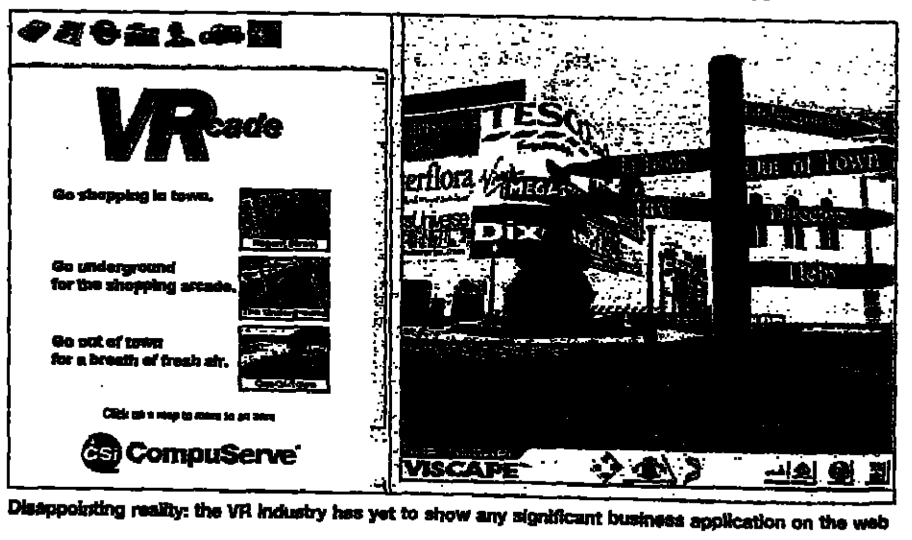
"The early days of VR on the web were tough because VRML was not working and people did not want proprietary standards," says Mr Chiplin. "The market has now matured and people are increasingly writing applications to use VRML."

Superscape once championed its own technology as superior to VRML. But it has become a late convert.

The latest browsers have VRML compatibility built in and Platinum, which acquired the two leading VRML player technologies, promises to combine them in a single universal player that will be made freely available early next year.

The slow speed of the internet remains a problem as it limits the amount of detail that can be transmitted, causing users to complain that web-based virtual worlds are not realistic.

Perhaps the biggest challenge affecting web-based VR lies not so much in technical shortcomings as in its flawed conception. The industry has still to demonstrate it has any significant commercial application.



Disappointing reality: the VR industry has yet to show any significant business application on the web

MANAGEMENT & TECHNOLOGY

Trading places: Philip Docker (centre) in full cry during his days in the London futures pits

TECHNOLOGY **STOCK TRADING**

Shouting software aims to be the pits

Peter John reports on the development of an 'in-your-face' system designed to help options traders move to screen-based markets

The meteoric performance of shares in Vodafone, the UK mobile phone operator, has nothing to do with merger talks or a global rise in telecommunications shares, according to Philip Docker.

It is all down to one anonymous derivatives dealer whose recorded cry of "Vowdafown" in a demotic London accent rings out from two speakers every time the options contract is traded on-screen. The cyber call is so popular with traders at Liffe, the London futures exchange, that they tinker with the stock option contract just to hear it, says Mr Docker.

Such voice alerts are the most striking feature of a unique options trading system developed by EasyScreen, a company created less than a year ago by Mr Docker and Paul Varcoe, his partner.

Between them, they have spent more than 30 years in the market, many in the traditional striped-jacket world of London futures pits. They now have their sights on Chicago.

They have developed a front-end system that competes with eight rivals, including systems from heavyweights such as Reuters and ICV Datastream.

In a nod to the growing influence of computer games, the system also has a "machine gun" button – known in the trade as a delta grabber. With two clicks the trader can grab all the available prices within specified parameters and can then execute the trades.

Dealers can also use any index as a trigger to buy or sell exposure in the options market. For example, if the Dow Jones Industrial Average reaches 9,000, a sell program can kick in.

"Before I went into this my only computer experience was playing football management games. I didn't even have an e-mail address," says Mr Docker. "While a lot of people out there are probably not as old as me, they may not be PC literate, so I thought we could develop a system with me as a target user."

EasyScreen claims to be the conduit for 60 per cent of stock options volume, a small part of the overall activity at Liffe but the first phase of the exchange's shift to full electronic trading.

The real money, however, is in futures contracts, particularly in the US. The Chicago Mercantile Exchange has just opted to trade its Eurodollar contract electronically. The contract is one of the biggest in the world, with 109m lots traded last year.

The company already has a futures model ready and has set up an office in Chicago, hoping it can make the most of the business opportunity.

The software input for the options trading system came from Mr Varcoe. Mr Docker had spotted the former Salomon equity trader standing in the trading pits with a laptop, and discovered he had written his own risk-management program. The duo built on that to create the new system and then persuaded Dealing Object Technology, a London software company, to develop it in exchange for a 25 per cent stake in the company.

Mr Varcoe's wife Paula recorded most of the voice alerts, but the company is starting to offer customised models. One dealer has Wagner's *Ride of the Valkyries* belting out every time an order is filled.

"We have tried to recreate the pit environment," says Mr Docker. "It's an in-your-face system. You can hear the action going on." Traders who are gradually moving over from the faintly medieval world of pit trading appreciate the "comfort blanket" of a system developed with them in mind.

One experienced ex-floor dealer says: "They understand the needs of the traders and they have taken on the big boys and held their own. But they need the money to develop it. It is okay when you have two or three guys writing the system but when you need 10 the money goes out of the window very fast."

PEOPLE ON THE MOVE

Shumejda and Ratclif in the driving seats at Agco

John Shumejda, one of the original members of the buy-out team at Agco, the US farm equipment manufacturer, will be the company's new chief executive and president.

Bob Ratcliff, who took on the chief executive officer role when Jean-Paul Richard resigned after just nine months in the job two years ago, will remain as executive chairman. At the time of Richard's abrupt departure, there was speculation that the two men had clashed over the degree of control that should be given to the chief executive, although Agco itself did not comment in detail.

Shumejda, 54, has already been serving as chief operating officer for 12 months. He has a degree in automotive engineering from Western Michigan University and previously worked for Uniroyal and, between 1970 and 1983, the former International Harvester Company. Agco is the smallest of the major US farm equipment suppliers with annual sales of \$3.2bn in 1997, but has a significant presence in Europe. It is best known for brand names Massey Ferguson, Hesston and Gleaner.

Nikki Tait, Chicago

Whyte named Weir chief

Duncan Whyte has been named chief executive of the Weir Group, the Scottish-based engineering company that is one of the world's leading pump manufacturers. Whyte, an executive director of Scottish Power, will take office on June 1.

He will succeed Sir Ron Garrick who becomes chairman on February 1 following the retirement of Lord Weir. Sir Ron will be executive chairman until the end of the year before going non-executive.

Scottish Power said that following the departure of Whyte, who is 51, it is making **Charles Berry** and **Alan Richardson** executive directors. Richardson, 52, is to be chief executive of Pacificorp when Scottish Power's agreed bid for the US utility, which it made last month, has obtained its regulatory approvals. He is currently managing director of power systems.

Berry, who is 46, is responsible for electricity supply and will now become executive director for customer sales and service, responsible for the energy supply and retail businesses.

Scottish Power said **Murray Stewart**, the 65-year-old non-executive chairman, is to stay in office until the Pacificorp deal is completed, instead of retiring at the 1999 annual meeting in July, as previously announced.

Whyte joined the then South of Scotland Electricity Board in 1988 as finance director and took Scottish Power to flotation in 1991. He is currently executive director for multi-utility activities, supervising Scottish Power's capacity to supply electricity, gas, water and telecommunications, as well as being chairman of Manweb, which Scottish Power bought in 1995.

Until he leaves for Weir Group he will concentrate on the regulatory reviews that affect Scottish Power.

James Buxton, Edinburgh

Hosier leaves Sanwa for BCI

Ian Hosier is to become head of aerospace finance at Banca Commerciale Italiana. His move is part of BCI's acquisition of about \$900m in European aerospace finance business from Sanwa Bank, of whose London branch Hosier is deputy general manager and head of structured finance. Along with other Japanese banks, Sanwa is reducing its international exposure. It will retain about \$200m of European aerospace finance assets.

Clay Harris, London

Potter: founder leaving Esprit

Streamlining at Den norske

Den norske Bank, Norway's largest, is to streamline its organisation to five from seven units and enlarge its management team to improve its competitive position.

The restructuring, the first under Svein Aaser's four-month tenure as chief executive, comes at a time of consolidation in the Nordic financial sector and as Norway's government prepares to reduce its 52 per cent shareholding in the company this year to as low as a third.

Under the new organisation the group will merge its marketing divisions for retail and corporate customers, while creating new business areas for savings and financial services, as well as large business and shipping customers.

The restructuring means the company will not be replacing John Giverholt, the chief financial officer who resigned earlier this month. Tom Grondahl, leader of group staff, will take over his responsibilities.

Valeria Sköld, Oslo

Potter to form investment group

Michael Potter, one of the founders of Esprit Telecom, the fast-growing European telecommunications company acquired last month by GTS of the US, is leaving to establish a high-technology venture capital firm.

Potter, who remains president and vice-chairman until the end of February, helped found Esprit in 1991 realising there would be rich rewards for operators agile enough to take advantage of the soon-to-be-liberalised European telecoms markets.

Esprit was set up in the UK where liberalisation preceded the rest of Europe by several years. The company now has sales offices and points of presence in more than 30 European cities and is building a 9,000km (5,600 mile) fibre optic network using the most advanced networking and transmission technologies.

Potter, mild mannered by nature, is nevertheless well known for trenchant attacks on the behaviour of incumbent operators whom he accused of bending and breaking competition rules to delay and disadvantage newcomers. Achieving a level playing field in Europe has been one of his principal ambitions.

He now intends to form an investment group, Paradigm Ventures, to focus on European high-technology projects.

Alan Cane, London

Moving places

- Brazil's finance ministry has appointed economist **Andrea Sandro Calabi** president of Banco do Brasil, replacing Paulo Cesar Ximenes.
- Hitachi vice-president **Etsuhiko Shoyama** steps up to replace **Tsutomu Kanai** as president in April. Kanai will become company chairman.
- The Vienna Stock Exchange has appointed **Erich Obersteiner** as its joint chairman. Obersteiner, 33, was previously responsible for Raiffeisen Zentralbank's investment banking operations in its branches and subsidiaries. He succeeds Christian Imo.
- **François Blanchère** has been appointed chief executive of DMB&B Paris. Blanchère, 39, joins from Euro RSCG/GBHR where he was chief executive.
- **Rolf Stomberg** has been appointed non-executive chairman of UniPoly, the polymer manufacturer formed from the management buy-out of the British industrial conglomerate BTR in 1997. Stomberg was a main board director of BP and the chief executive of BP Oil International until he retired at the end of 1997 after 27 years with BP. He is chairman or non-executive director of a number of companies in Europe.
- **Gérard Delaforge** has been promoted to the executive committee of Credit Agricole Indosuez, the French bank.

People on the Move is edited by Lisa Wood. Fax 00 44 171 873 3926.

هكذا من الاصل

EXHIBITION

Saint, husband and public enemy

William Packer is delighted by a collection showing Charles I, who was executed 350 years ago, as all these and more

On January 30, 350 years ago, at about two in the afternoon, Charles Stuart, king of England and Scotland, met his death on the warrant of Cromwell and his parliament before a silent crowd in Whitehall. Wearing several shirts against shivering in the cold, he stepped through a window of the Banqueting House, on to the black-draped scaffold outside. Having spoken briefly to his people, and scornful of the ropes and pulleys provided against his possible resistance, "mildly praying to himself, he stooped down to the Block, as to a Prayer Desk, and most humbly bowed his generous Neck to God, to be cut off by the Vizarded Executioner, which was suddenly done at one Blow. Thus fell King Charles," says the Black Memorial broadsheet, published soon after, "and thus all Britain with him."

Even the parliamentarians were awed by what had been done. "He nothing common did or mean/Upon that memorable scene" wrote the poet Marvell: "This was the memorable hour/Which first assured the forced power." The Cromwellian project, after all, was hardly a success, ending as it did in the dictatorship of the lord protector, free of Commons as well as Lords. In a moment now of not quite so violent but nonetheless far-reaching parliamentary reform, these unhappy precedents might give us pause.

The head that fell that frosty afternoon remains one of the most familiar icons in British history and art, with its long hair and pointed beard and quiet, melancholy gaze – from before the age of photography, only Henry VIII and Elizabeth I can have been as immediately recognisable. The point of the exhibition now at the Queen's Gallery, which marks this notable anniversary, is to examine quite how it was that King Charles's image came to be so fixed, even in his own time, in the general consciousness.

The head that fell that frosty afternoon remains one of the most familiar icons in British history. Only Henry VIII and Elizabeth I could have been as immediately recognisable

It falls naturally into two parts. First, there is early celebrity as Prince of Wales, the young king and his dynastic but happy marriage to Henrietta Maria of France, and the conventional glorification of the royal house through the 1630s and the period of his personal rule. Then comes the Civil War propaganda, the confinement of the king, moving to trial and execution and the emergence of the cult of the martyr king.

The material is drawn entirely from the royal collections, centred on the work of the principal court artists, such as Mytens and Dobson, and, of course, Van Dyck. To see Van Dyck's definitive triple study of the royal head (two profiles and full-face) – sent to Rome as a reference for Bernini, from which he carved the marble bust that was subsequently destroyed in a Whitehall fire of 1698 – alongside a putative copy of that lost original is to enjoy a frisson of comparison that is quite new, for these things have never before been shown together.

Across the room are another two unfamiliar but important busts, one a plaster by an unknown artist, which, though loose in the modelling of the shoulders, has a direct and highly personal quality. The other, the finest of the three, was made in London in the 1630s by the French sculptor, le Sueur, a regally hieratic image which, in its less refined but effective public version, sits amid the traffic of Trafalgar Square.

But it is the context in which the works are placed that gives the exhibition its savour, a context supplied by a rich trove of documentary material, popular prints, books, medals, broadsheets and polemical tracts. The prints especially are of a remarkable quality, as though fresh off the press. Here are a rare pair of the then prince and his prospective bride; here the devoted king with his queen, Henrietta Maria, after the Van Dyck double portrait; the king on horseback, again after Van Dyck; and again, but with the head of Cromwell substituted for that of the king.

The exhibition works at several levels: as a study of printmaking in the early 17th century; as social documentary, propagandising the royal image, the subversive role of the broadsheet, the spread of political opposition; and an analysis of the cult of the martyr, the most subversive ploy of all.

A supreme confidence in the nobility of kingship: Charles I by Delff after Mytens (1628)

But ultimately it is the sense of the man himself, as a man of his pomp and his predicament, that commands this show, whether as king, husband, public enemy, or sainted victim. The familiar Van Dyck image holds centre-stage, but perhaps two others, less well known, set this truer tone. They are both of the 1640s, the times of his troubles: William Dobson, painter at court in its wartime exile at Oxford, shows the king as he was in the most direct terms, human observation but without flattery of a sad and troubled man; and Edward Bower shows the king sitting at his trial at Westminster, in his tall hat, his Garter star defiantly on his arm, now remote and calm in resignation to his fate.

The King's Head – Charles I, King and Martyr: The Queen's Gallery, Buckingham Palace, London SW1, until May 3; arranged and supported by The Royal Collections Trust

CONCERT HAITINK/LPO

Fine Mahler that drew in the crowds

Yet again, last month, the Royal Festival Hall was sold out for a Mahler performance by a fine conductor and a crack orchestra: respectively the Ninth Symphony (and *only* that, without any preliminary filler), Bernard Haitink and the London Philharmonic. It's a good long while since I saw so long a queue, of all ages – well, from about 18 up – and dress-styles, pleading for tickets at the windows.

On box-office criteria, current audiences seem to agree with the conductor Ben Zander that Mahler was an even greater symphonist than Beethoven. Though they really aren't comparable: Beethoven could scarcely have imagined the virtuoso modern orchestras from whom the conductor-composer Mahler demanded so much, and it would be vacuous to speculate whether a "Mahler" born earlier could have achieved more than Beethoven, with his non-virtuoso bands and his narrower, "classical" harmonic palette.

What is certain, however, is that live symphonic Mahler now generally out-sells Beethoven – even the "Choral" symphony, except when it boasts *very* famous soloists. And Haitink's scrupulous account of the Mahler Ninth certainly gave satisfaction this time: finely prepared, beautifully executed.

It was a pretty selfless account, unlike some famous others. There was little of Leonard Bernstein's wicked mischief in the *Ländler* movement, for example, nor any gross violence in the Rondo-Burleske (taken brilliantly fast); and I have never heard a steadier tempo maintained in the great Adagio – no *molto espressivo* swoops or dips. Haitink probably believes that the notes should speak for themselves, as they did.

From where I sat, halfway

Mahler generally out-sells Beethoven – even the "Choral" symphony

back in stalls left, there was a balance problem: probably just a trick of the acoustics, but vexing. Whenever the excellent trombones or horns, or even a solo horn, played without mutes, the violins were just swallowed up. The falling second that haunts the score, especially in the first movement, became a lethal threat to the thematic fabric.

Newcomers to the symphony, if they were sitting near me, must often have lost the thread. Since Haitink is a master of orchestral balance, an acoustic gremlin must be blamed. A pity; but it was still an admirable performance.

David Murray

Self-serving struggle of the men from the ministry

THEATRE

NICHOLAS POWELL

Les huissiers
Théâtre de la Colline, Paris

The eight-year-long Algerian war of independence remains an eminently painful and unhealed trauma in modern French history, rarely if ever documented on television and virtually taboo in the cinema and theatre. But it did inspire Jean Genet's *Les paravents*, which was published in 1961 just before Algerian independence and first performed five years later.

Michel Vinaver's excellent *Les huissiers* ("The ushers"), on the other hand, written in 1957 during the early stages of the war, is less brutal in its action and vocabulary and far more incisively critical of France's political elite. But it frightened off every director in sight.

It was not performed until 1980, in Lyons, and is only now having its first Paris run, until February 28, at the Théâtre de la Colline, which *specialises* in young and avant-garde writing.

Staged by the theatre's director, Alain Françon, *Les huissiers* has been partly rewritten. Vinaver has pared down the political speech-making and restored the real names of political parties he originally concealed behind pseudonyms.

The play has spotlighted both Vinaver, aged 72, who was little known outside theatrical circles, and his unusual double career: far from being a bohemian outsider like Genet, the playwright was, for 30 years, a senior executive with Gillette under his real name, Michel Grinberg.

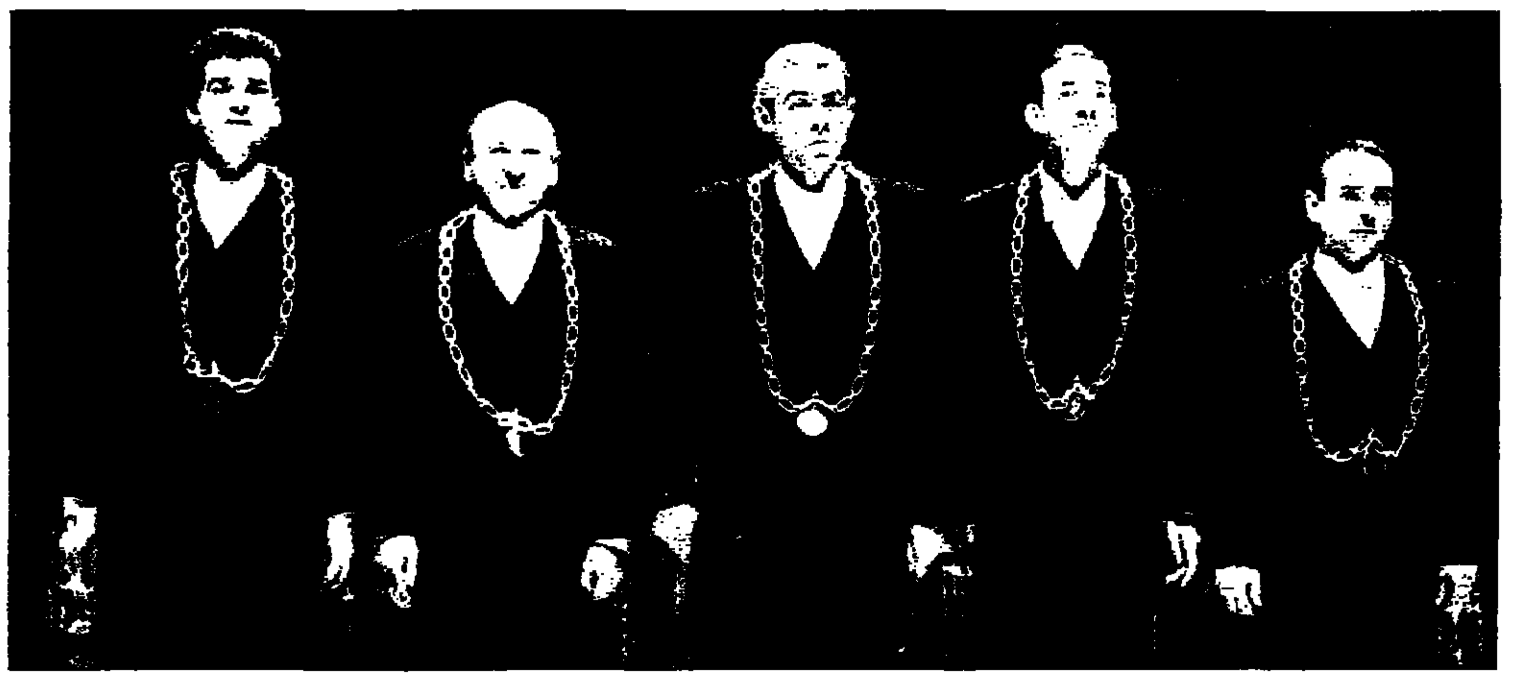
The Algerian war of independence is virtually taboo in French cinema and theatre

Les huissiers is the sort of play Jean-Paul Sartre might have written had he been blessed with a sense of humour. It pitches the pettiness of political manoeuvring in France's fragile Fourth Republic against suffering it cannot comprehend and ordinary human joys it prefers to ignore.

Amid the self-serving circles of Parisian ministries, the Algerian war is perceived primarily as an obstacle to career advancement.

The five ushers of the title – the tail-coated, chain of office-bearing civil servants, omnipresent in French ministries – form a chorus, commenting on their masters' political scheming and their own day-to-day concerns, from births to pension schemes and holidays.

Genet actually put fighting between Algerians and Legionaires on the stage. Here, the conflict is far away. Its horror is evoked simply, and all the more powerfully, by reports of a massacre that the French army has allowed to take place.



In chains: the five ushers form a chorus to comment on their masters' scheming

Laurencine Lot

The suffering is embodied in the distraught widow of a French officer, who comes for help to his childhood friend, Paidoux, the minister of defence. He, by way of comfort, can only offer heartless political smooth talk, and propose an inappropriate job.

Vinaver throws everything into even grimmer relief by describing the government's parallel struggle to appease the nation's hairdressers, who are lobbying for action against the latest mode for short hair among women.

All sorts of solutions, including pressuring fashion magazines to promote elaborate feminine hair decoration – comprising everything from model boats to birds – are envisaged and worked over. The minister's secretary, Mademoiselle Simène, is even made to wear one.

A young disgraced radical socialist *député*, meanwhile, finally secures both his and Paidoux's political salvation by suggesting the launch of a lotion, prettily described as an *"ondulation masculine"*, concocted to add a pleasing wave to men's hair. The government is at last safe.

Vinaver says that work with Gillette kept him enjoyably in contact with day-to-day reality. His writing, meanwhile, remained close to the bone.

His failure to stage a second controversial political play, *Iphigénie Hôtel*, written in 1958 about General De Gaulle's return to power that year, put him off writing for 10 years.

Then *Par-dessus bord* of 1969, concerning a family firm of lavatory paper manufacturers bought out by a multinational, helped abbreviate his career with Gillette.

With his latest work, *King*, commissioned by Françon, due to open next month, he has put his former career to even better use, dramatising the extraordinary story of the razor company's utopian founder, King C. Gillette.

'Les huissiers', until February 28; and 'King', March 11-April 25, Théâtre de la Colline, Paris

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Carmen: by Bizet. New staging by Andreas Homoki, conducted by Edo de Waart. The designs are by Wolfgang Gussmann and Gabriele Jaenecke, and the cast includes Carmen Oprisanu and Martin Thompson; Feb 3, 6

BERLIN

CONCERT
Konzerthaus
Tel: 49-30-203090
Deutsche Oper Orchestra: conducted by Jiří Kout in works by Brahms and Bartók, with piano soloist Gerhard Oppitz; Feb 3

OPERA
Deutsche Oper
Tel: 49-30-34384-01
● Faust: by Gounod. Conducted by Sebastian Lang-Lessing in a staging by John Dew; Feb 4
● Manon: by Massenet. Conducted by Sebastian Lang-Lessing in a staging by Cesare Lievi; Feb 2, 5

CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
Roméo et Juliette: by Gounod. Conducted by John Nelson in a staging directed by Nicolas Joël. The cast stars Roberto Alagna and Angela Gheorgiu; Feb 5

DALLAS

OPERA
Dallas Opera
Tel: 1-214-443 1000
www.dallasopera.org
La Bohème: by Puccini. Conducted by Antonello Allemandi in a staging by Mark Lamos, with sets by Michael Yeargan; Feb 3, 6

FORT WORTH

EXHIBITION
Kimbell Art Museum
Tel: 1-817-3328451
www.kimbellart.org
Matisse and Picasso: A Gentle Rivalry. More than 100 paintings, sculptures and drawings on loan from collections around the world make up this first-ever exhibition devoted to the relationship between the two great modernists; to May 2

GLASGOW

OPERA
Theatre Royal
Tel: 44-141-332 9000
Scottish Opera: Der Rosenkavalier, by R. Strauss. New staging by David McVicar, conducted by Richard Armstrong. The cast includes Joan Rodgers; Feb 6

HOUSTON

THEATRE
Houston Grand Opera, Wortham Center
Tel: 1-713-227 2787
www.hgo.com
A Little Night Music: by Sondheim. Grant Gershon conducts a production by Michael Leeds, with a cast including Frederica von Stade, Thomas Allen and Sheri Greenawald; Feb 3, 6

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● London Symphony Orchestra: conducted by Colin Davis in works by Elgar, Bartók and Beethoven, with violin soloist Sarah Chang; Feb 3, 4
● London Symphony Orchestra: conducted by Colin Davis in works by Beethoven and Elgar, with piano soloist Richard Goode; Feb 7

Royal Festival Hall
Tel: 44-171-960 4242
● London Philharmonic Orchestra: conducted by Kent Nagano in works by Bartók and Berlioz, with viola soloist Yuri Bashmet; Feb 3
● Royal Concertgebouw Orchestra: conducted by Riccardo Chailly in works by Brahms and Schoenberg, with violin soloist Vadim Repin; Feb 4

EXHIBITIONS
Barbican Art Gallery
Tel: 44-171-638 8891
● Africa by Africa: A Photographic View. Spanning the breadth of photography produced in Africa since the 1920s. Includes works by Mama Casset, Seydou Keita and Samuel Fosso; to Mar 28
● Picasso and Photography: The Dark Mirror. Exhibition exploring the influence of photography upon both the figurative and Cubist strands of Picasso's work, and including photographs by Picasso; to Mar 28

MONTREAL

EXHIBITION
Montreal Museum of Fine Arts
Tel: 1-514-285 1600
www.mbam@cam.org
Monet at Giverny: 22 paintings, produced during the last 20 years of the artist's life, loaned by the Musée Marmottan in Paris; to May 9

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Munich Philharmonic Orchestra: conducted by Fabio Luisi in works by Wagner and Liszt; Feb 2, 3
● Philharmonie Folkwang Essen: in works by Bach and Beethoven, with violin soloists Nigel Kennedy and Peter Daniel; Feb 5
● Symphonieorchester des Bayerischen Rundfunks: conducted by Lorin Maazel in works by Mozart and Bruckner, with piano soloist Murray Perahia; Feb 4

EXHIBITION
Haus der Kunst
Tel: 49-89-211270
The Night: exploring the development of the nocturne, or night time scene, in western art from the 15th to the 20th century. Includes early examples by artists including Cranach, baroque works by Caravaggio and his followers, works by the German romantics, Goya, Munch Ernst and Magritte; to Feb 7

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
www.staatstheater.bayern.de
Lohengrin: by Wagner. Peter Schneider conducts a staging by Götz Friedrich. Cast includes Adrianne Pieczonka and Waltraud Meier; Feb 3

NEW YORK

EXHIBITION
Museum of Modern Art
Tel: 1-212-708 9480
www.moma.org
Jackson Pollock: first US retrospective of the Abstract Expressionist since that held at MOMA in 1967. Includes more than 100 paintings and 50 works on paper; to Feb 2, then transferring to London

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Moses and Aron: by Schoenberg. Conducted by James Levine in a staging by Graham Vick, with sets and costumes by Paul Brown. Cast includes Philip Langridge and John Tomlinson; Feb 8

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Frans Brüggen in works by Beethoven, Hummel and Schubert, with piano soloist Marie-Josèphe Jude; Feb 3, 4

EXHIBITION
Grand Palais
Tel: 33-1-4413 1730
Un ami de Cézanne et de Van Gogh: le docteur Gachet (1828-1909). Exhibition devoted to the doctor and painter who was a friend to Cézanne, Pisarro, Monet and Renoir as well as to Van Gogh, who famously spent the last weeks of his life with Gachet at Auvers-sur-Oise; to Apr 26, then transferring to New York

ROME

EXHIBITION
Palazzo delle Esposizioni
Tel: 39-06-474 5903
Poussin: Early Years in Rome. Display of 41 works produced between 1624 and 1628. The centrepiece is 'The sacking of the temple in Jerusalem by Titus' (1925/6); to Mar 1

ZURICH

EXHIBITION
Kunsthaus Zurich
Tel: 41-1-251 6765
Chagall, Kandinsky, Malevich and the Russian Avant-garde: exhibition exploring the artistic upheavals of the first two decades of this century. Includes important loans from the State Hermitage Museum in St. Petersburg and pictures from provincial Russian museums; to Apr 25

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of *FTTV* reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS

PETER MARTIN

Age of the network

I had heard it so many times before, but I finally saw the light on the road to Davos

I finally get it. The moment of understanding came in a conversation at Davos with David House, president of Nortel Networks. At the end of the discussion, I understood what the coming age of pervasive networks will mean.

Imagine a world in which all rich-country adults – and most of the kids too – are permanently connected to broadband cellular radio networks.

The appliances they carry – telephones, pagers, digital notebooks, electronic tablets, personal computers, desk phones, computer games – share the same basic functions. Each one is optimised for a particular task, such as voice conversations, e-mail, or blasting monsters.

But what they have in common is more important than their differences. All these appliances are in constant contact with the rest of the world, continuously updated, seamlessly blending hi-fi sound, television-quality images and instant access to all the world's data. The world wide web is part of this, but only part.

I know, I know. You are yawning already. This is the science fiction vision we have been promised since the dawn of the computer age. But this time it is real. In fact, it is no more than a year or two away.

Here is the final proof: telecoms equipment companies are merging with computer networking companies. That might sound an arcane bit of corporate manoeuvring, but it is absolutely central to the story. Nortel Networks, a merger of Canada's Northern Telecom with California's Bay Networks is one example. So is Lucent's acquisition of Ascend. Further mergers are almost certain to follow.

The freewheeling, rapidly changing world of computer networking is culturally as far away from the buttoned-down phone-equipment business as you can imagine. So the fact that the two are willing to get together tells you something: both sides see no choice.

Until a year or so, most of the traffic on the world's telecoms networks was voice. Now, in the most advanced countries, the majority is data. In a few years' time, voice will be a tiny fraction of the traffic. Only computer networking technology can carry data efficiently – its switches are 15 times better at handling data than exchanges designed for voice traffic.

But the phone equipment people have a trump card, too: a history of staggering reliability. As Mr House says, it is the difference between 99.8 per cent uptime (a good computer network) and 99.9998 per cent (a phone system).

That might seem esoteric, but it is not. Think what that means in terms of the user experience. When you pick up a fixed line phone, you do not think twice about whether you will get a dial tone. You just *know* there will be one. And, these days if you get a wrong number, you assume you misdialled. The system's reliability is taken for granted.

When you use one of today's cellular phones, you cannot be certain you will get a signal. Probably you will, but sometimes you will not. And using the internet over a dial-up connection is even more unsure. Psychologically speaking, the three experiences are distinct. A pretty reliable connection is quite different from a very reliable one.

The Lucent/Ascend deal and the Nortel/Bay Networks merger will help bring phone system reliability to all networks, voice and data. And broadband connections – in corporate networks, at home and over next-generation cellular – will transform the experience in other ways.

Here is a practical example. Today's internet shopping sites are the equivalent of catalogue shopping. They work just fine for transactions where you know what you want, or can easily choose. But in many sales transactions – and almost all high-value ones – you need advice from a human being. You want to ask questions, and assess the plausibility of the answers.

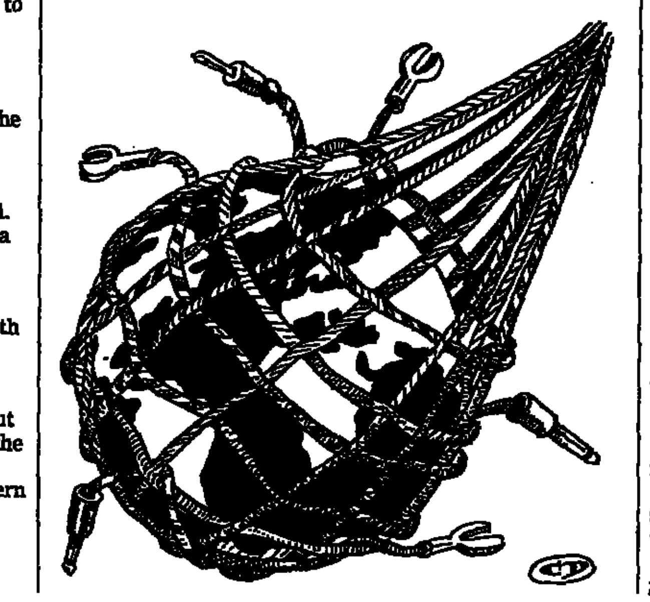
Tomorrow's shopping websites will have buttons you can click to connect you immediately to sales people who will answer your questions. You will hear their voices and see them live on screen. They can call up data and images to show you, customised to your needs. You can send them a picture of yourself, to see how you will look in your new clothes. Some websites are already adding in voice connections. The full version is only a few years away.

Another practical example: there will be no real difference between the phone on your desk and the phone in your pocket. All will be cordless, all will have built-in voicemail. All will have the ability to handle your e-mail, keep your diary, and preserve a searchable archive of your conversations. The choice of when and to whom to be available will be yours.

All this depends on the availability of broadband connections. In homes, it is finally taking off on a massive scale in North America, through cable modems and the advanced phone service called DSL. New corporate buildings will have this sort of access plumbed in from the outset. Refitting older ones will be slower. But third-generation cellular, the system known as UMTS in Europe, will be with us from around 2002. Not only will it provide broadband access for mobile devices, it will put intense pressure on fixed-line operators to move more quickly.

Technology visionaries may say: there is nothing new in all this: we have been saying it for years. And so they have. But now I *get* it.

peter.martin@ft.com



LETTERS TO THE EDITOR

Benefits of market-driven standards

From Mr David L. Aaron.

Sir, Your editorial "Crossed lines" (January 20) makes the point that the US has paid a price for its market-driven approach to standards for mobile communications, but overlooks the very substantial benefits of this approach.

In the US, without mandating standards or national coverage, we have nationwide coverage by networks in place or under construction that use four different second generation technologies. The result is that some carriers offer local and long-distance wireless service at flat rates as low as 10 to 15 cents a minute, which is competitive with wireline service prices. Rates in Denmark, by comparison, average 31 cents a minute; in France, the average is 54 cents a minute. We firmly believe that licensing multiple technologies and competitors worldwide will offer similar benefits to wireless customers around the globe.

We also believe that much of the innovation in the wireless communication market can be traced to the US's willingness to allow the market to drive standards. In fact, it is worth noting that code division multiple access technology, a leading contender as a standard for third generation technology, likely would not have been developed commercially if a single standard had been mandated in the US because it was submitted for consideration after the adoption of time division multiple access technology.

As we look towards the next generation of these systems, we in the US believe that encouraging innovation and competition, rather than conferring the advantage of regulatory certainty on a preferred technology, will be in the best interests of all. For this reason, we strongly support the industry-led standards negotiations now under way in the International Telecommunication Union, and we urge EU member states to ensure that their 3G licensing processes accommodate all ITU recommended standards on an equally timely basis.

David L. Aaron,
under-secretary for international trade,
US department of commerce,
Washington,
DC 20230, US

Nike's certification no means guaranteed

From Pharis J. Harvey.

Sir, Hannah Jones's letter (January 25) disowning the statement of Joseph M. Ha, Nike vice-president, regarding human rights activists in Vietnam is simply not credible. No vice-president of a leading company would commit in writing to a highly placed official statements that did not reflect company policy. Dr Ha's statements are therefore evidence of Nike's embrace of anti-democratic values.

We have worked with Nike for the past two years as a non-governmental partner to the White House Apparel Industry Partnership. We are therefore particularly dismayed at Ms Jones's use of the Apparel Industry Partnership as "evidence" of Nike's labour-friendly corporate practices.

The Apparel Industry Partnership, after two years of difficult negotiations, has only recently succeeded in developing a charter for a Fair Labour Association to monitor and accredit companies. Even after the association is established, it will be three years before any company can be certified as having good labour practices.

There is no guarantee that Nike will receive such certification. Therefore, as we stressed repeatedly during the negotiations, no company should use its participation in the partnership as evidence of good labour practice.

The fact that Nike has ignored our concerns on this point hardly bodes well for the future co-operation with the non-governmental organisation community.

Pharis J. Harvey,
executive director,
International Labor Rights Fund,
733 15th Street N. W.,
Suite 920,
Washington,
DC 20005, US

Russian investments need not be written off

From Mr Igor Nazvanov.

Sir, I do not believe that the Russian market is so "depressed" and that multinationals must "write off" their investments here permanently.

There are huge ADR, GDR and bill markets allowing such companies to cash their investments in fallen banks through trading them on the market.

That is exactly what bankrupt banks do, transferring the debts into liquid capital and moving it to a newly set-up bank.

Igor Nazvanov,
trust service,
Financial Bank Zerich,
2 Vsevolozhskiy pereulok,
Moscow, Russia

Fed's policy removes risk of circularity

From Mr Adrian Cunningham.

Sir, In "Watch out for the fireworks" (January 27), Martin Wolf concludes that the Federal Reserve has made serious errors by paying insufficient attention to asset prices in the formulation of monetary policy. Perhaps it has. Certainly its monetary policy stance has done little to deflate asset prices.

However, it is unlikely to have known with certainty that the information contained in those asset prices highlighted a "bubble" rather than a rise justified by an improvement in the underlying fundamentals.

On several occasions over the past few years Alan Greenspan, the Fed chairman, has highlighted the problems associated with determining the nature of recent economic trends in the US. It appears as though the authorities are uncertain whether these trends are unusual variations of the conventional business cycle or whether the inclusion of new technology in the productive process is capable of raising productivity to new levels.

Since these uncertainties are unlikely to be resolved conclusively in the near term, surely the Fed is best served seeking price stability while ensuring that the financial system is well regulated and capitalised so as to be able to withstand asset price volatility without severely impacting the real economy. This at least removes the risk of circularity – asset prices depending on expectations of policy moves and vice versa.

Adrian Cunningham,
head of economics,
Scottish Mutual Assurance,
302 St Vincent Street,
Glasgow G2 5HN, UK

Number One Southwark Bridge, London SE1 9HL

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PERSONAL VIEW BARRY EICHENGREEN

Building on a consensus

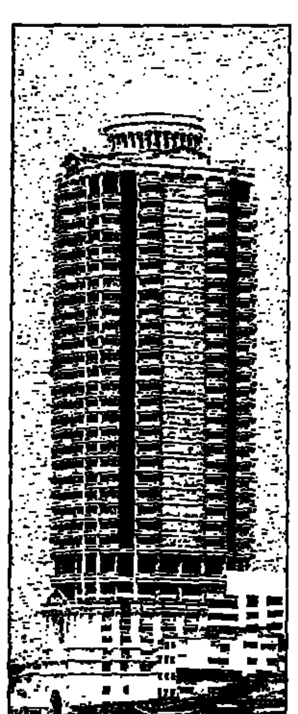
The private sector could play an important role in helping the IMF to set up a new international financial system

The crisis that erupted in Thailand in 1997 left Bangkok's skyline studded by unfinished skyscrapers and half-built architects' dreams. One fears that the same fate will now befall that other set of architects – the ones seeking to rebuild the international financial system. That process now resembles nothing so much as an open competition for a lavish commission. Anyone with a pencil has submitted a plan.

Judges of architectural competitions winnow submissions by rejecting those that fail to conform to the site or exceed the engineering capabilities of the builders. A first step towards a consensus on financial reform is to reject grandiose schemes for which there is no political support.

However compelling the argument that global financial markets require a global financial regulator, global bankruptcy court, global money, and a global central bank, realism requires acknowledging that national governments are not prepared to turn over significant additional powers to a super-International Monetary Fund. Europe has created a single currency and a European Central Bank only after half a century of hard slog. It is fantastic to think that this process could be replicated on a global scale in a few years.

What remains is a limited agenda, but an important one. The first element is the need for international financial standards. It is impossible to fix the international financial system without first fixing the domestic financial systems of countries active on international markets. But neither the IMF nor any other multilateral agency has the resources to micro-manage this process in 182 countries. The only practical approach is to develop and adopt international standards of acceptable practice, not just for bank regulation but also for auditing and accounting, corporate governance, and bankruptcy law as well. National practices can differ in their particulars, but all must satisfy a common set of international standards.



International financial architecture: let's hope it works

In doing this, the lead must be taken by the private sector: by the International Accounting Standards Committee, Committee J of the International Bar Association, and others. The IMF can help enforce these standards by issuing blunt assessments of national practice and offering concessionary interest rates on its loans to countries that comply.

A second critical area concerns banks and capital flows. Everyone agrees on the need to strengthen banks' risk management and supervisors' oversight and regulation. But the sad truth is that banks in too many countries have a limited capacity to manage risk and that regulators have limited capacity to supervise their actions. In such countries, moreover, capital requirements in theory and capital requirements in practice are two different things. Consequently, revising the Basle Capital Standards to make capital requirements sensitive to the source of banks' funding as well as the riskiness of their investments is unlikely to prove effective.

The basic problem is that free access to foreign finance, short-term finance in particular, is incompatible with financial stability. Foreign funding gives banks gambling for redemption and otherwise seeking to take on excessive risk an additional way to lever up their bets.

Government guarantees for banks regarded as too big to fail encourage foreign investors to provide those funds. And when confidence is disturbed, the short maturity of their loans provides these investors the opportunity to flee. Their rush for the exits can bring down not just the banking system but the currency and the economy as well.

This creates an argument for limiting short-term bank borrowing abroad in countries where banks' risk-management practices and regulatory supervision do not suffice. And where banks can circumvent these measures by having the companies do the borrowing and pass on the proceeds to them, broader measures may be required. Financial stability may have to be buttressed by a Chilean-style tax to limit short-term foreign borrowing by all domestic entities. The international community should become an unambiguous advocate of these measures.

One indisputable lesson of the Brazilian debacle is the need for the vast majority of emerging markets to move to more flexible exchange rates

A last area where there exists a reasonable degree of consensus is on changing the provisions of loan contracts. Majority voting and sharing clauses should be added to loan contracts to prevent isolated creditors from resorting to lawsuits and other means of obstructing settlements. This is the only practical way of creating an environment more conducive to restructuring negotiations. Unfortunately, this is a process in which no borrower wants to be first. The IMF will have to make clear that it will lend at more attractive interest rates to countries that issue debt securities with these provisions. US and UK regulators should require the relevant provisions of international bonds admitted to trading on their markets.

Finally, it is important for aspiring architects to draw the right lessons from the Brazilian debacle. IMF protestations not withstanding, one indisputable lesson is the need for the vast majority of emerging markets to move to more flexible exchange rates. Brazil illustrates yet again that, in a world of high capital mobility, democracies cannot credibly attach priority to the maintenance of pegged exchange rates above all other goals of policy.

Brazil is also a blunt reminder both of how few countries have the kind of unquestionably strong policies that might permit the IMF to extend unconditional credits in advance and of how small the Fund's resources remain relative to those of the market. The new "contingent facility" for the IMF, as suggested by the Clinton administration and the Group of Seven, is not a feasible response.

This week's meeting in Davos was yet another occasion for the pundits to flog their pet plans. Most of their ideas are not practical guides for policymakers. The time for this is over. The task now is to move from abstract schemes to concrete action. This means discarding unrealistic proposals and building a consensus around those that remain.

The author is professor of economics and political science at the University of California, Berkeley

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FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Tuesday February 2 1999

Dealing with reality

Brazil, after agreeing a programme with the International Monetary Fund, has got itself into a mess. Its defence of the Real peg failed. So too its attempt at a controlled devaluation. The government must now try to rebuild credibility, so that interest rates can fall from unsustainable levels. It needs a new plan, and soon. This should include additional fiscal measures, a reaffirmed commitment to privatisation, and a new anti-inflationary anchor. With these elements in place, it should also involve continuing IMF support.

Having been forced to devalue by market expectations and political failure, the Real is close to 2 to the dollar, a fall of some 40 per cent. Short-term interest rates have been increased to almost 40 per cent. As well as threatening a deep recession, such high interest rates compound the government's central problem: a fiscal deficit, which last year reached 8 per cent of gross domestic product.

Stabilising the fiscal deficit was the central objective of the plan agreed with the IMF to defend the exchange rate peg. High interest rates will cause the government to miss its fiscal targets. Clearly it has broken the exchange rate promise. However, the IMF should agree to disburse the second tranche of the $41.5 bn international support package. The alternative would send a devastating signal.

This support should depend on the Brazilian government first coming up with a plan to limit the damage. The first item is fiscal policy. The bulk of the existing plan has now, belatedly, been passed by Congress. The government must ensure its speedy implementation. Furthermore, it should announce new fiscal measures. This would demonstrate its commitment to dealing with the fiscal problem, and help rebuild trust. The unwieldy and unfair state pension system is an obvious target.

Second, the government must reassure the markets that it remains committed to privatisation and an open economy. The privatisation of Petrobrás, the state oil company, would be a positive shock to expectations.

Third, Brazil needs a new, credible anti-inflationary policy. A return to high inflation is not inevitable. Indeed, the recession Brazil will suffer this year will keep a lid on price rises. However, high interest rates in part reflect fears that the government will resort to monetisation to meet its short-term domestic debt obligations. To do so would undo the good work of the real plan in taming hyper-inflation.

To ensure that there is no return to the bad old days, Brazil needs a new monetary anchor. One option is a currency board. The other is a transparent inflation target, with the central bank charged with its delivery. Whichever the government chooses, there is no time to waste.

Home banking

For the giants of European banking there are no easy strategic options at either regional or global level. But in countries where rationalisation has been slow to gather pace there are at least some domestic options that make good sense – witness yesterday's proposal for a merger between Société Générale and Paribas.

The French banking market has been far from an unexciting backwater over the past decade. Yet the natural development of the financial system has been held back by important constraints. The disruptive business of nationalisation and denationalisation complicated the ownership structure. So, too, did the problems of Crédit Lyonnais, where a government-inspired attempt to create a national champion with pan-European ambitions led to disaster.

Against that background the merger of two institutions that inhabit the uncomfortable ground between the big league and the niche players' territory is logical. It follows a similarly domestic merger proposal in Spain between Banco Santander and Banco Central Hispano, respectively numbers one and three in the Spanish banking market. No doubt there will be more single-country consolidation of this kind across the European single market, with economic and monetary union providing additional impetus.

Yet for the combined groups that simply leaves a larger strategic question. In terms of market capitalisation and gross assets, Société Générale and Paribas rank with the global giants. But they are nowhere much in global investment banking, even though this is an area of historic strength for both institutions.

One risk in a country where the state traditionally entertains ambitions of its own for the leading banks is that the enlarged entity will be encouraged to pursue a cross-border strategy that reflects an outdated national champion philosophy. The outcome might not be as disastrous as at Crédit Lyonnais – that would be difficult – but it would be unlikely to be very successful.

Another risk is that the French may be tempted to follow the Germans in trying to scale the peaks of investment banking in the US. So far this has proved both expensive and fruitless for Deutsche Bank. It is also a route which the big Swiss bank UBS has found very troublesome.

The final, more general risk in continental Europe is that mergers may do little for rationalisation because the legal constraints on shedding labour remain so powerful. The potential of the single market will not be fulfilled if consolidation fails to bring a serious attempt to reduce overcapacity in European banking.

Metall-bashing

The sound and fury of Germany's annual pay round is upon us, and IG Metall, the mighty engineering workers' union, is back in the front line. The trade union has made an unrealistic demand – 6.5 per cent, when inflation is below 1 per cent, and unemployment (over 4m) may well be on the rise again. The employers have come back with an inadequate response – 2 per cent, with an optional lump-sum extra of 0.5 per cent for "profitable" companies. Now both sides will huff and puff until a compromise is reached. But far too many man-hours will be lost in the process of protest.

It is all rather predictable, and even, one might think, reassuring. But it is also foolish. This is a pay deal which is likely to be the benchmark for most of German industry. Yet it is being conducted according to rules which have outlived their usefulness.

At a time when the trend is towards flexibility in labour markets, both union and employers in Germany's most important industrial complex are locked into a monolithic process of collective bargaining. The result will not reflect the variety of the industries they represent, nor the interests of their workers.

One mistake has been made already: both sides have agreed that wages in east German industries will catch up with those in the west this year, and the same pay deal will apply. Given the big gap in productivity between east and west, that is wrong-headed, and will not help create new jobs. But it may well be ignored on the ground. Latest figures suggest that only half the engineering companies in the eastern Länder observe national pay deals.

The wage round covers not only the motor industry, which had a good year in 1998, but many other metal-working industries, like shipbuilding, which can scarcely afford the same sort of pay rise. Yet IG Metall is adamant that collective solidarity must be maintained.

A bruising confrontation will certainly not be to the liking of the new German government, which has made an "alliance for jobs" its highest priority. But moderation in the pay round is not helped by memories of pre-election rhetoric from Oskar Lafontaine, now finance minister, who called, little more than a year ago, for an end to pay restraint.

Times change. Mr Lafontaine has to balance his budget now. He is looking at the parallel public sector pay round (wage claim 5.5 per cent) with some concern. Perhaps the most useful thing that the government's alliance for jobs can deliver at this moment is wage moderation, and a willingness to relax the rigid rules of collective bargaining in the longer term.

Better late than never

Samer Iskandar examines belated moves towards consolidation among French banks and argues that these could herald integration with the rest of Europe

The euro, only a month old, is already shaking up Europe's banking system. Last month saw the $34bn merger of Santander and Banco Central Hispano in Spain. Yesterday, Société Générale and Paribas said they would follow suit.

The impact of the latest $17bn merger is likely to be felt beyond France's borders. Not only is the new group, renamed SG Paribas, expected to act as a catalyst for the rationalisation of France's own banking sector; it may also mark the beginning of a broader consolidation across Europe, where, encouraged by the single currency, half a dozen pan-European banks are expected to emerge over the next few years.

Indeed, within minutes of announcing their decision to create France's largest bank, Société Générale and Paribas signalled their intention of looking for new acquisitions.

André Lévy-Lang, who is to become chairman and chief executive of the new group, said there was interest in buying a stake in Crédit Lyonnais, the state-owned bank earmarked for privatisation before the end of June.

French banks have lagged far behind their European counterparts in the consolidation game. According to a report published this month by Moody's Investors Service, the French banking industry is "comparatively less concentrated than in the UK, Switzerland or the Netherlands". No French bank has more than 10 per cent of the country's deposits.

It is therefore likely that SocGen and Paribas are merely taking the first step towards the far more significant repositioning of European banks. "This is just the first step in a long process," said one analyst. "We expect other similar operations before the end of the year."

A decade ago, two French banks – Crédit Lyonnais and Crédit Agricole – were among the world's largest as measured by assets, and SocGen was the biggest participant in the global derivatives market. But having stayed on the sidelines during the international merger frenzy of the past few years, France had lost its seat at the top table of global banking.

In the past couple of years, conditions have changed dramatically. In particular, the euro has highlighted the importance for banks of structuring their activities along pan-European, rather than purely national, lines.

In recent months, signs have emerged that the widely expected shake-up was imminent. A number of foreign banks – including Deutsche Bank, ABN-Amro and ING of the Netherlands, and Italy's San Paolo-Imi Bank – have expressed their interest in establishing a foothold in the French market by acquiring, or forging alliances with, French banks.

For some time, though, nothing happened. Potential predators among foreign banks adopted a wait-and-see attitude, with each player, as in a poker game, hoping another will show its cards first.

Several factors help to explain their reluctance to make a big move in France. First, the perceived aversion of the leftwing coalition government to hostile takeovers.

Second, the power of mutually owned and/or state-owned banks. (Crédit Agricole, now the second-largest bank and the largest before yesterday's merger was announced, is mutually owned). Mutually owned banks are under little or no pressure to distribute earnings in the form of dividends. Some state-owned banks, such as the Caisse d'Epargne savings bank, have a monopoly on savings accounts that pay high-yielding interest rates and make it difficult for commercial banks to compete for savings. Indeed, other French banks complain of unfair competition from mutuals and state-owned banks.

Third, the privatisation method chosen for Crédit Lyonnais locks up a large proportion of the bank's capital among "friendly partner-shareholders" and makes it all but impossible for a buyer to gain control. The government wants half a dozen banks to take stakes of around 5 per cent each – and leave the current managers in place.

Lastly, there were fears that inefficiencies in the French banking system might be exacerbated by the introduction next year of a shorter working week. Banks are considered to be more vulnerable than many companies to this change because it is harder for them to change working shifts and patterns to offset the increased costs the law involves.

Last year, however, the pressure on profitability due to cut-throat competition for business between French banks, was lifted – however, temporarily – by the improvement in the economy. With consumer spending and the property market picking up, most banks reported record profits from their retail activities in the first half, offsetting emerging market-related losses.

That forms the background to France's largest banking merger. What might happen now?

Last week, Swiss Life, the insurance company partly owned by UBS, announced it had increased its stake in Crédit Commercial de France, one of France's 10 largest banks, to above 10 per cent.

However, Swiss Life, which had to disclose its intentions under French market regulations, said it had "no intention to take control of CCF".

So with CCF, (which many had seen as a target) considered at least temporarily out of play, attention has turned to Banque Nationale de Paris.

Until recently BNP was SocGen's direct rival in commercial banking. It is still France's third-largest bank but SocGen's merger has opened up a huge gap in size between the two.

"This merger puts BNP in an unsustainable position," says a banking analyst. "It will have to react fast, or risk being marginalised, especially in investment banking."

But what can BNP do? The most obvious move – and still the most likely – is to link up with another large French bank. Along with Paribas and SocGen, BNP has expressed interest in acquiring a sizeable stake (of more than 5 per cent) in Crédit Lyonnais. Analysts believe yesterday's deal could boost BNP's chances over its rivals.

Such a deal might also face little opposition from the government, which is thought to favour domestic alliances over cross-border mergers.

But there might still be a problem. Paribas is the only bank in France without a branch network. Any other merger would almost certainly involve job cuts, which could provoke opposition from unions. "SocGen and Paribas made the easiest, most obvious, move," says one analyst. "It does not involve any politically sensitive job cuts. Any other tie-up between two French banks will only make sense if it offers potential for cost savings. This means branch closures and staffing cuts."

So there is another possibility: BNP might seek a cross-border alliance – a strategy which many analysts consider the more likely. That opens up the possibility of a large foreign bank entering the French banking system.

If that happens, the move might well be a dramatic one. "This government is not likely to allow a bank the size of Deutsche or ING to make more than one French acquisition," says one banker. "So if you have a war chest large enough to aim for a bank the size of Crédit Lyonnais, you are not going to waste your only opportunity to enter this market on a second-tier player."

And if a first-tier bank in France is indeed swallowed up by a bank from another European country, the story of French banking will move from domestic consolidation to integration in Europe.

Euro premier league

Different tax regimes and pension systems are delaying a fuller consolidation of Europe's insurance industry, says **Andrew Bolger**

The consolidation sweeping Europe's financial services industry can mean a multiplicity of roles for individuals such as Claude Bébéar, chairman of Axa, the French insurer.

On the same day he was flagged as a future board member of SG Paribas, the enlarged French banking group, Mr Bébéar was explaining why Axa had made a recommended offer for Guardian Royal Exchange, one of the oldest names in British insurance.

Axa's proposed acquisition is the latest in a series of cross-border acquisitions that have seen the emergence of a "premier league" of European insurers. When Allianz recently acquired AGF, the French insurer, the German company said it was keen to secure a prominent market position in France and other euro-zone countries. ING, the Netherlands insurance and banking group, said its acquisition of BBL, the Belgian bank, had given it a second home in Europe.

Last week GE Capital, the financial services subsidiary of US group General Electric, brought together its European consumer insurance and investment activities into a new company called GE Insurance Holdings, forcastinging further considerable consolidation among European insurers. But Merrill Lynch, the investment bank, estimates there are still more than 5,000 insurers.

Consolidation and the launch of the euro are expected to have most impact in markets that are already transnational, such as commercial insurance and reinsurance. Munich Re, the large German reinsurer, has predicted that demand for reinsurance cover will also increase if the launch of the euro leads to an economic upswing. However, Munich Re believes the euro will also intensify competition.

There is also a growing realisation that a simple consolidation logic cannot be applied easily to potentially profitable areas such as the life assurance and pensions market, which is bound to grow as European governments transfer more of their pensions burden from the public to the private sector. Pensions are so inextricably entwined with national tax regimes and laws that there is very little scope for trans-European products – although the biggest groups such as Axa and Allianz can certainly benefit from centralised asset management.

KeesStorm, chairman of Aegon, the international life assurance and pensions group based in the Netherlands, says the ability to pool asset management is the real significance of Allianz's acquisition of AGF. "If they had believed in euroland they would not have had to acquire that big group – they would have done it from Germany," he says. "But I don't see any French customer buying a policy in Germany."

OBSERVER

Claude bags his prey

The big game hunter at the helm of French insurance giant Axa has made another killing. Claude Bébéar, Axa's wily chairman, has stalked the venerable Guardian Royal Exchange. But when he's not plotting acquisitions, he's indulging his passion for shooting game – usually in France's former colonies. His office, which looks more like a gentleman's club, is lined with antique British guns and stuffed animals' heads.

The skills required for Bébéar's hobby might have proved useful as he prepared to pounce on GRE. After putting GRE into play in November, Axa went very quiet. While other prospective bidders spun their stories, Axa got to work lining up buyers for the bits of GRE that would not fit with Axa's UK subsidiary, Sun Life and Provincial Holdings.

The only question: is GRE worth bagging? One reason Axa's offer beat Royal & Sun Alliance was that the market decided Bébéar had lost interest in GRE – and marked up Sun Life's shares in relief. The sharp drop in Sun Life's share price yesterday suggests the hunt might not yet be over.

Job share

France's financial elite occupies an endearingly small world. While chief executives may move from bank to bank, the same short list stays in power for decades.

But there are pitfalls in viewing the Société Générale-Paribas deal as another manifestation of the stranglehold of the Ecole Nationale d'Administration and the Polytechnique on the Paris financial system. Daniel Bouton, SG's chief executive, fits most closely into the traditional mould, graduating from ENA and serving most of his career in the finance ministry. André Lévy-Lang, on the other hand, although a Polytechnicien, jumped quickly into industry before hopping sideways into the distinctly unconventional Compagnie Bancaire.

Still, the two banks have opted for a distinctively French management carve-up. Paris investment bankers explain that French chief executives don't get as much money as their US counterparts, so they have to seek gratification in the power and privileges of the job. That makes it harder for anyone to give ground in a merger. But Paribas and SG have neatly resolved the dilemma by putting the cerebral Lévy-Lang in the top seat for the next three years – with Bouton scheduled to take over in 2002.

Calorie wars

Carnival season in Germany always takes a bit of explaining. But what, exactly, was John C. Kornblum, the US ambassador in Bonn, doing in yesterday's mass-market Bild newspaper, dressed as a cowboy and clinging to Heide Simonis, the bewigged prime minister of Schleswig-Holstein?

Kornblum was getting this year's "award against deadly seriousness", given annually by Aachen carnival organisers to prominent individuals "for showing true humour and humanity in his or her public position". He rose to the occasion by threatening an ambassadorial blockade of the Bonn government quarter if Joschka Fischer, the slimline Green foreign minister, insisted on pushing his personal regime of vegetables and jogging on to the diplomatic corps.

Kornblum said that "no first use" might be a suitable strategy for nuclear weapons "but with creme fraiche, it's out of the question". There was further belligerent talk of ambassadors hanging on to their "arsenal of Cognac, smoked salmon and steaks". Heaven knows how he explained it all in a telegram to Washington.

Laugh a minute

The annual banquet of The Bankers Club is becoming a London showcase for candidates for the presidency of the European Central Bank. Last year, Wim Duisenberg, then still unconfirmed in the job, set out to deliver "the dullest speech imaginable", on the widely held premise that the last thing anyone expected from a central banker was excitement. He didn't disappoint; laughter was as rare as a benevolent banker.

Last night, the guest speaker was Bank of France governor Jean-Claude Trichet, whose desire to relieve the lugubrious Dutchman of his Frankfurt duties still burns deep within him. But bankers also know better than to expect a fun-packed speech from Trichet.

Though Observer can confirm that he is, on occasions, verging on the jovial, it appears that Trichet and Yves-Thibault de Silguy, the French EU commissioner, have only one euro joke between them. Both men used it during last year's Washington conference. At least it wasn't about Duisenberg.

Tea strainer

Is it tea-time for Londoners? Tea and coffee seller Whittard of Chelsea wants to knock the froth off those painfully trendy coffee bars that seem to have claimed the capital's streets. But Rod McKie, the managing director who counts the beans at Coffee Republic, says Whittard is selling more coffee than tea at its first "t-bar" in London's Baker Street. He reckons tea will never be in vogue because no one knows what to do with the bag. Observer will have to let that one stew.

The Financial Times

100 years ago

The Viceroy Speaks
In the course of his reply to an address presented by the Calcutta Trades Association, Lord Curzon, the Viceroy of India, said: "I am certainly of the opinion that English money should be attracted to India. The Government should do what lies in its power to encourage such a movement. The opposite theory which has been argued, namely that the employment of British capital constitutes a drain on the natural resources of the country, I regard as a mischievous delusion. I consider that British and native capital is needed for the development of India. Native capital is shy, and requires to be coaxed. It is not yet habituated, at least in Bengal, to large ventures."

50 years ago

Foreign Capital In India
Calcutta, Feb. 1. On the eve of the new session, it looks doubtful whether the Indian Parliament will get through the agenda of seventy Bills scheduled for debate. It is understood that the Premier himself will make an early statement on the future role of foreign capital in India, and the indications point to a more liberal and realistic treatment of this subject.

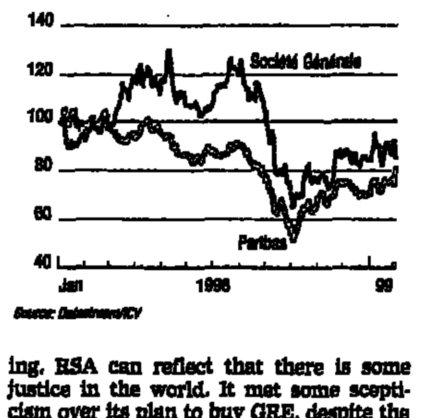
FINANCIAL TIMES
TUESDAY FEBRUARY 2 1999

THE LEX COLUMN

Parisian Société

If ever a deal was likely to reinvigorate the moribund French banking sector, this was not it. Société Générale has gone after scale not quality by taking over Paribas. Putting the two together will not create a more powerful institution. SG and Paribas overlap mainly in investment banking, where the combination will make them world number five in a few product areas like derivatives and trade finance – hardly pulse-racing stuff. More worryingly, as Paribas has no branch network, the deal also fails to do anything about France's over-competitive domestic banking market. Elsewhere in Europe, banks are merging to cut costs in their retail networks. The inability of French banks to follow suit is becoming a handicap.

French banks
Share prices relative to CAC 40 index



Source: Datastream/ICV

The deal does promise some synergies: €800m in annual pre-tax cost savings from merging the two groups' non-French investment banking businesses. But investors are suspicious of this figure because of fears that cutting investment banking costs will also hit fees. In addition, although SG is saying the right thing by promising to reduce the amount of capital tied up in investment banking, it plans to spend the released capital on acquisitions rather than returning it to shareholders. These factors – coupled with prior bid speculation – may explain why the value of the combined group barely budged.

SG may have done the wrong deal but it still seems better off than rival Banque Nationale de Paris, which is now left without a partner. But help could be at hand for BNP; the government could give it a big role in Credit Lyonnais's privatisation to prevent it from falling too far out of contention.

GRE/Sun Life

As auctions go, it has been sadly lukewarm. After much huffing and puffing, Sun Life and Provincial – and its French parent, Axa – are paying less than 380p a share for GRE. In theory, Eureko should return with a cash bid of 385p. But as it has yet to conduct due diligence and would have to pinch Axa's buyer for the US business, this looks a long shot. Royal & Sun Alliance also seems to be shrugging its shoulders. Of course, this could change if the winner's shares keep sliding. RSA can reflect that there is some justice in the world. It met some scepticism over its plan to buy GRE, despite the obvious industrial logic; compare its £150m mooted savings with Axa's £80m. Sun Life's 9 per cent share price fall yesterday showed the market's displeasure at a dilution of its life assurance core, and some concern at the challenge it faces in improving GRE's flagging profits. But Sun Life's shares have merely been debunked from 2-3 times book value. RSA's were struggling even to match it.

The price obtained for GRE does not look impressive. GRE may point to a net asset value of 283p a share to make the multiple look respectable at close to 1.4 times. But this admits to destroying nearly £500m of value last year in its health insurance and US acquisitions, whereas Axa appears to have sold the latter for close to what GRE paid. Axa looks set to enhance its reputation for buying shrewdly at GRE's expense.

UK economy

Recession, what recession? That could be the attitude of the Bank of England's monetary policy committee when it meets later this week. After all, the economy did not shrink in the final quarter of 1998 – contrary to the dire predictions of some. And last week's Confederation of British Industry survey shows business is not quite as pessimistic as it was about growth. So there is no point in cutting rates, is there?

Hold on a moment. The economy may well not be in reverse. But it is, at best, spluttering along and the recovery in sentiment is fragile. Equally important, businesses are even more gloomy about their ability to raise prices than they are about output. Witness yesterday's record low reading on prices in the Purchasing Managers' Index.

True, underlying retail price inflation did poke its head above the 2.5 per cent target in December. But deflationary tendencies remain and, on a medium-term basis, inflation looks like undershooting its target. Add in the fact that sterling has recently strengthened and that base rates of 6 per cent are perhaps 1 percentage point above the level consistent with a neutral monetary policy – another half point cut looks appropriate.

Caterpillar

If Glen Barton has any qualms when he takes over as the new boss at Caterpillar this week, he can console himself that the task confronting his predecessor was much more daunting. Donald Fites took up the reins in 1990, when the world's biggest maker of heavy earthmoving equipment was desperately trying to overhaul its manufacturing operations in the face of acute competition from Japan's Komatsu and a domestic market plunging into recession. Today, the situation is less serious, and the financial strength and underlying productivity at Caterpillar hugely improved. Still, there are enough short-term worries to have pegged the shares for the best part of two years.

While the US construction market remains healthy, price competition is developing in key lines, such as backhoes. And while the farm sector's woes have a modest direct impact, they could hurt the group's Perkins Engines subsidiary. Brazil and its possible domino effect on Latin America, is less important to the company than the Asian crisis, but it is hardly helpful.

Perhaps Mr Barton's best hope is that Asia is beginning to bottom out, while US demand remains reasonable. That way, Caterpillar may get away with the 10-15 per cent earnings decline analysts are forecasting for this year. But with so much scope for slippage if events go awry, the shares, even on a forward ratio of only 18 times earnings, do not look attractive.

US manufacturers bounce back as Europe shrinks

By Richard Adams in London

European manufacturing continues to shrink – in sharp contrast to the US where manufacturers are staging a recovery at home and abroad, according to surveys published yesterday.

The figures also show that deflation within Europe may soon become apparent, with the price of materials paid by manufacturers continuing to fall.

Surveys of manufacturing purchasing managers in Germany, the UK, Italy and Switzerland all reported continued contractions in output and orders in the sector.

In contrast, the US National Association of Purchasing Managers' index saw activity rebound sharply last month.

The German, Italian and UK figures add fuel to calls for lower interest rates. The European Central Bank (ECB) and the Bank of England both hold meetings on Thursday to set monetary policy.

A majority of analysts expect the UK's monetary policy committee to cut rates, while weekend comments by Wim Duisenberg, president of the ECB, cast doubt on a euro-zone cut this week.

Mr Duisenberg said rates would need to be cut only if there was a persistent fall in the level of prices in the euro-zone. But a further fall in the German index of prices paid by manufacturers suggested deflation may not be far away.

The German index fell 39.3 in December to 37.4 last month, well below the "break even" index level of 50. Any reading under 50 implies activity is contracting.

"This is fuelling fears that Germany is close to deflation," said Robert Lind, a European economist at ABN Amro investment bank.

The UK index also showed a rapid fall in the prices paid by companies for supplies. The Chartered Institute of Purchasing and Supply said its prices index was 32.3 in January, its lowest level in the survey's seven-year history.

"This was largely attributed to greater discounting by suppliers, both domestically and overseas, with prices being driven lower by weaker global demand and the excess supply of many goods," the institute said.

The UK index showed a slight improvement in the decline in output and export orders, but quantity of purchases and employment contracted at a faster rate.

The German data also recorded a slower rate of contraction in output and export orders, but employment weakened further after a recovery in the previous two months.

In the US, Norbert Ore, chairman of the national association, said the rapid jump showed manufacturers were optimistic about a recovery in the sector this year.

Production and new order figures in the US last month both moved from well below the "break even" in December – to 53.1 and 51.3 respectively.

Analysts said the increase was helped by growth in exports, which rose from 44.7 to 49.8.

See Lex

Clinton is set for struggle with Congress over $1,770bn budget

By Gerard Baker and Deborah McGregor in Washington

President Bill Clinton yesterday promised "a new era of opportunity" when he unveiled next year's budget, forecasting more than $2,400bn (€2,700bn) in surpluses over a decade and opening a fierce struggle with Republicans over how to spend the money.

Announcing the $1,770bn budget plan for the next fiscal year, Mr Clinton outlined proposals for strengthening the Social Security retirement fund and shoring up Medicare, the federally funded health insurance plan for the elderly.

He also proposed billions of dollars in new spending on defence, education and on domestic programmes ranging from child care to the environment.

Sending his budget to Congress for the year starting this October, Mr Clinton hailed an historic turnaround from the run of federal deficits stretching back to the 1960s.

"Last year for the first time in three decades, we turned red ink to black," he said. "Our economic house is in order and strong."

The presidential plan is the opening bid in the annual budget process. Mr Clinton's proposals require approval by a Republican-led Congress that has shown little appetite for his fiscal priorities.

Though they have indicated support for measures to save Social Security, Republicans have already made clear their wish to see across-the-board cuts in income tax rates, which would return more than $600bn to taxpayers over a decade.

Pete Domenici, chairman of the Senate Budget Committee, said: "I believe American taxpayers have given us more of their money than we need, and we should return it to them."

Mr Clinton reiterated his commitment to restoring Social Security and Medicare by devoting about three-quarters of the federal surpluses to them.

He proposed spending about 10 per cent of the surplus on new individual retirement accounts that would subsidise workers wishing to set aside further funds for retirement. He suggested reserving the final portion of the surplus – about 11 per cent – for "pressing national needs" including education, other domestic priorities and maintaining military readiness.

Mr Clinton called for more than three dozen targeted tax relief measures, totalling $36.2bn over five years. For families, there was a proposed $1,000 tax credit to help cover the costs of caring for a disabled or chronically ill relative.

The continuing improvement in the US federal government's fiscal position stems from a number of economic, legislative and technical factors that have bolstered revenues and restrained spending.

Strong growth, low unemployment, low inflation and a surging stock market have been the main economic factors, while lower defence costs and a succession of budgets that have kept spending in check have also helped.

Forecasts pave the way to fiscal bliss, Page 8

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Chee Soon Juan, a Singapore opposition leader, went on trial yesterday on charges of speaking in public without a police permit. Page 4

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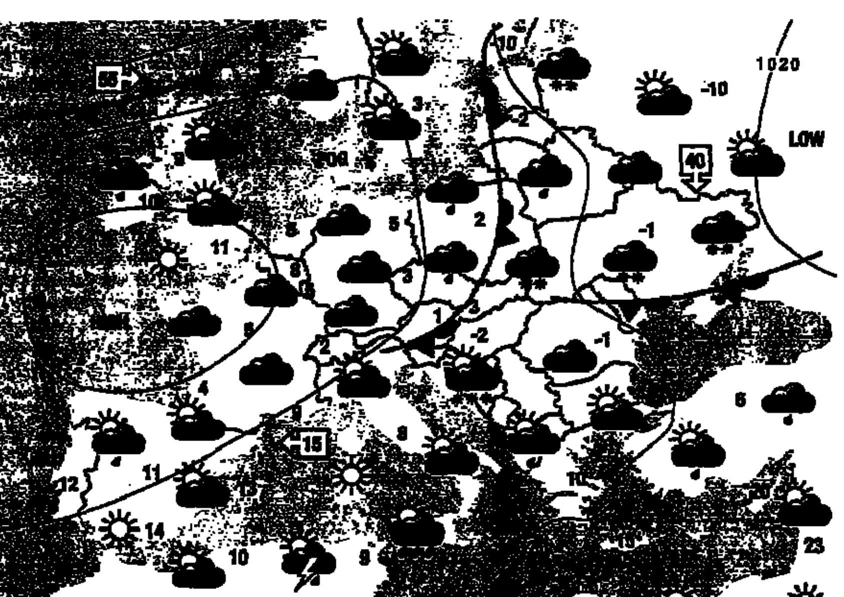
FT WEATHER GUIDE

Europe today
Scandinavia will be warmer than recently with further outbreaks of snow in the north but rain in the west. Southern areas should be dry and sunny after early mist or fog. The Baltic States and eastern Europe will see snow spreading east; a few showers will be scattered across the Balkans and northern Greece. The Mediterranean will be chilly with heavy showers or thunderstorms but the Iberian Peninsula will become dry. North-west Europe will be mostly dry and a little milder than recently.

Five-day forecast
The warming trend will continue across north-west Europe, with rain only pushing southwards towards the weekend. In Scandinavia there will be rain but more snow in the north. Eastern Europe will stay cold with fog patches but snow showers will return later in the week. The Mediterranean will remain showery and cool for a few days.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	24
Accra	Fair	32
Algiers	Shower	10
Amsterdam	Cloudy	8
Athens	Rain	10
Atlanta	Shower	17
B. Aires	Sun	25
B.ham	Sun	9
Bangkok	Rain	32
Barcelona	Sun	10
Beijing	Shower	-2
Belfast	Cloudy	10
Belgrade	Cloudy	-1
Berlin	Rain	3
Bermuda	Shower	20
Bogota	Fair	20
Bombay	Fair	30
Brussels	Cloudy	8
Budapest	Snow	-2
C.hagen	fog	4
Cairo	Sun	22
Caracas	Fair	28
Cardiff	Sun	10
Casablanca	Sun	14
Chicago	Fair	4
Cologne	Cloudy	8
Dakar	Fair	24
Dallas	Fair	17
Delhi	Sun	19
Dubai	Sun	24
Dublin	Cloudy	11
Dubrovnik	Sun	6
Edinburgh	Fair	9
Faro	Sun	12
Frankfurt	Cloudy	7
Geneva	Fair	2
Gibraltar	Sun	14
Glasgow	Drzzl	9
Hamburg	Cloudy	6
Helsinki	Snow	-10
Hong Kong	Fair	19
Honolulu	Shower	26
Istanbul	Drzzl	5
Jakarta	Fair	31
Jersey	Fair	9
Johannesburg	Thunder	15
Karachi	Sun	28
Kuwait	Sun	25
L. Angeles	Sun	21
Las Palmas	Fair	20
Lima	Fair	27
Lisbon	Sun	12
London	Sun	11
Luxbourg	Cloudy	5
Lyon	Fair	3
Madeira	Cloudy	17
Madrid	Sun	11
Majorca	Fair	13
Malta	Shower	12
Manchester	Fair	9
Manila	Fair	31
Melbourne	Fair	32
Mexico City	Fair	24
Miami	Fair	27
Milan	Sun	6
Montreal	Snow	-1
Moscow	Fair	-10
Munich	Sleet	2
Nairobi	Fair	29
Naples	Shower	7
Nassau	Sun	26
New York	Rain	8
Nice	Fair	12
Nicosia	Fair	20
Oslo	Fair	1
Paris	Fair	6
Perth	Sun	29
Prague	Drzzl	3
Rangoon	Fair	35
Reykjavik	Snow	4
Rio	Fair	33
Rome	Fair	8
S. Frsco	Sun	14
Seoul	Fair	-1
Singapore	Rain	30
Stockholm	Fair	3
Strasbourg	Cloudy	5
Sydney	Shower	26
Tangier	Fair	14
Tel Aviv	Sun	23
Tokyo	Rain	9
Toronto	Sleet	8
Vancouver	Rain	8
Venice	Fair	6
Vienna	Shower	1
Warsaw	Ice	2
Washington	Rain	9
Wellington	Fair	19
Winnipeg	Fair	-3
Zurich	Cloudy	2

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FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

COMPANIES IN THIS ISSUE

CROSSWORD, Page 32

MARKET STATISTICS

AT&T links up with Time Warner

Joint venture will bypass Baby Bells to deliver telephone services to 20 million US homes

By Richard Waters in New York

AT&T yesterday announced a joint venture with Time Warner, one of two companies that dominate the US cable television business, which will enable it to reach directly into an additional 20m American homes.

The deal represents an important part of the national jigsaw that the largest US telecommunications company is trying to piece together as it seeks to extend its network.

The joint venture echoes AT&T's pending acquisition of Telecommunications Inc, announced last summer. Both deals will make it possible to sell local and long-distance telephone services directly to Americans, rather than relying on the networks of rival local carriers, or Baby Bells, to carry its calls into the home.

Time Warner's cables pass 20m homes, or roughly a fifth of the total, and the company claims 12.6m cable subscribers. TCI has 10.5m subscribers but, including affiliates, its cable networks pass 33m homes.

The new joint venture would make it possible for AT&T to reach into some of the biggest US cities, including New York, and offer telephone services for 20 per cent less than residential customers currently pay, said Michael Armstrong, chairman of AT&T. Unlike the TCI acquisition, however, the Time Warner venture will not open a route for AT&T to sell high-speed internet access services, expected to represent one of the fastest-growing parts of household spending on communications services.

Time Warner's own Road Runner service provides a rival to At Home, the high-speed data company that will come under AT&T's control when it buys TCI.

Gerald Levin, chairman of Time Warner, claimed that the overlap would not hamper the AT&T and Time Warner venture. He described high-speed internet access as "essentially a local product" provided by a local cable company, rather than part of a broader telecommunications service. "There really isn't any sense of competition here," he added.

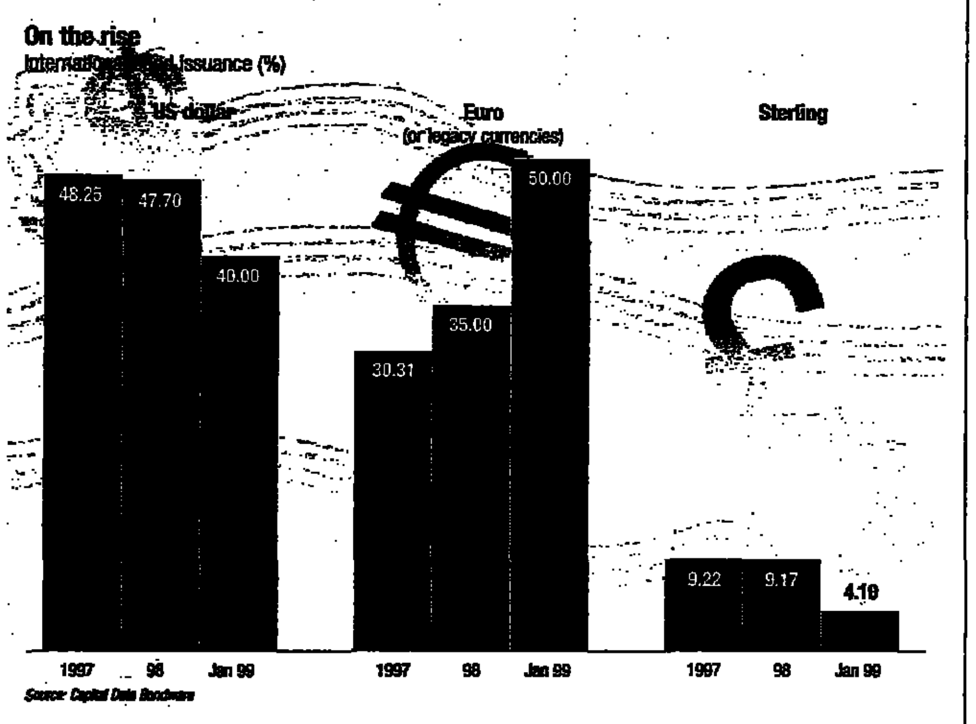
AT&T said it would make a one-off payment to Time Warner of $15 for each home passed by its cable systems, or $300m. It will also face an additional cost of $10-$15 per subscriber to provide back-up power to support the enhanced cable service, and an additional $300-$500 for each home signing up for cable telephony.

On top of that, AT&T said it would pay an initial monthly fee of $1.50, rising eventually to $6, for each telephone subscriber, though it described this as "far below" what it would cost to lease wires from the Baby Bells. The telephone service will be provided by a new company which is 77.5 per cent owned by AT&T, with Time Warner owning the rest.

The company will have exclusive rights to Time Warner's network for 20 years.

The two said they planned trials before the end of the year, with the new service becoming commercially available next year.

Time Warner should finish upgrading its networks to carry two-way calls by the end of this year, ahead of TCI, said Mr Armstrong.



It's love at first sight as Europe's investors fall for the euro's charms

The single currency is seen as more than the sum of its parts, writes **Edward Luce, Capital Markets Editor**

European investors and borrowers have embraced the single currency with enthusiasm. Although bankers warn that the euro's 50 per cent share of all international bond issuance in January is likely to fall slightly in the next few weeks, the currency has clearly established equality with the US dollar at its inception. "No other currency really enters the frame," said a senior US banker.

Given that the eleven "legacy" currencies never surpassed a share of more than 35 per cent of international bond issuance, the euro is clearly seen as more than a sum of its parts.

This is because international investors – including the Japanese who remain large buyers of foreign bonds – prize liquidity, the ability to buy and sell a security with ease.

Of the legacy currencies, only the D-Mark, with a share of between 15 to 20 per cent of international issuance in recent years, provided sufficient liquidity for the large US and Asian funds.

Bond officials point to a recent €8bn ($3.4bn) issue by Defpa, the German public sector bank, of which about a third was distributed to Japan. The proportion would have been much lower 12 months ago when the bond would have been denominated in D-Marks.

A second factor is that although the proportion of bonds issued in euros will probably fall to a level roughly equal with the share of the US dollar in the next few months, its share of issuance in January coincided with a very prolific few weeks of borrowing.

Just over US$140bn worth of bonds were issued, one of the highest-volume months on record. Of this, $69bn worth was issued in the single currency.

Bankers say that the euro's flying start has been aided by the fact that long term interest rates in the euro-zone are significantly lower than those in the dollar market.

This makes it cheaper for companies and banks to price fixed-rate issues against German government bonds, where the 10-year yield is 3.69 per cent, rather than against US Treasury bonds, where the yield on the 10-year benchmark is 4.7 per cent.

On the demand side, European investors have been happy to accept the lower yields in the euro-zone because there is an expectation that bond prices will rise in the next few months, thus providing them with capital gains.

"Almost every euro-denominated bond has been sold out on the same day," said Roger Bates, head of Deutsche Bank's Emu project in London.

Meanwhile, European investment banks have surprisingly outperformed their US counterparts as lead managers for bond issues in the first month of the single currency.

According to Capital Data BondWare, the information provider, European banks account for eight out of ten of the most prolific lead managers of bonds denominated in the euro.

The top four banks are Deutsche Bank, Commerzbank, Paribas and Dresdner, with shares of between six and ten per cent of all underwriting business in the euro. The top two US banks are Lehman Brothers and Morgan Stanley.

However, senior European bankers say they do not expect to retain their leading position. "We have been very aggressive in the first month," said the official. "But our American friends will pull out all stops to undercut us."

In addition, the league tables may have been exaggerated by the unusually large number of German Pfandbrief bonds – debt secured against mortgages and public sector loans – which is a market dominated by the big German banks.

BBV reveals record annual profits and merger strategy

By Tom Burns in Madrid

Spain's Banco Bilbao Vizcaya reported record annual profits yesterday despite financial turmoil in Latin America, where it operates a large banking franchise, and said it was in the market for a merger.

"We are not going to be hurried [into a merger] but we have always defended the theory of mergers because we believe that size is important," said Emilio Ybarra, BBV chairman. He added that BBV had a "wide range of possibilities", but declined to say whether he had domestic mergers or cross-border alliances in mind.

Speculation over the group's future strategy has heightened since rival Banco Santander unveiled a €30bn ($34bn) merger last month with Banco Central Hispano, Spain's fourth-ranked bank, which will create one of the largest financial institutions in the euro-zone.

Mr Ybarra denied that the merger plans announced yesterday by French banks Société Générale and Paribas had narrowed BBV's options. "There are still and will continue to be marriage partners, although we are under no obligation to get married."

The BBV chairman also said there was "absolutely no truth" to market speculation that he was seeking a merger with Argentaria, the fourth-ranked domestic bank which was fully privatised last year.

However, BBV's 1998 results, which were ahead of forecasts, show that it is in a clear position further to consolidate the Spanish banking sector. It is also well placed to implement a share swap alliance with another large European bank.

BBV lifted its net attributable income by 25.1 per cent to Pta163.6bn ($1.1bn), overtaking Banco Santander – which last week reported 1998 net profits of Pta142.1bn – and setting a new record for annual income by a Spanish bank.

It was the fourth consecutive year that BBV had raised its bottom line by more than 20 per cent.

Mr Ybarra forecast "very ambitious and achievable" results for 1999 which would be broadly in line with 1998.

Last year's profits figure came in spite of provisioning of Pta287bn, against Pta184bn in 1997. Provisions in 1998 included extraordinary charges of Pta172bn, of which Pta69bn was allocated to write off wholly goodwill arising from acquisitions in Brazil.

Editorial Comment, Page 21

UK's National Grid pays $634m for Eastern

By Andrew Taylor, Utilities Correspondent

National Grid, the UK electricity transmissions group, yesterday announced the agreed purchase of Eastern Utilities Associates in the US for $634m, taking its recent spending on US power acquisitions to almost $4bn.

The UK group seven weeks ago announced an agreed $3.2bn acquisition of New England Electric System (NEES), which is conducting the purchase of Eastern Utilities, an adjacent New England electricity transmission and distribution company.

The new deal is the latest in a series of bids by British companies to break into the US power market which is in the process of liberalisation.

The Eastern Utilities purchase will entrench National Grid's position as the region's second largest power supplier, increasing its share of the regional market to 23 per cent, behind North East Utilities which has 28 per cent.

The acquisition of Eastern Utilities will lift the combined businesses' share of the Rhode Island market to 98 per cent and to more than 50 per cent in Massachusetts.

National Grid, through NEES, is offering $31 for each Eastern Utilities share. The total cost of the deal, including acquisition of debt, will be about $1bn. The total cost of NEES will be $4.2bn. David Jones, National Grid's chief executive, ruled out any further large purchases until it satisfied US regulatory and competition authorities over both New England acquisitions. This was expected to take about 12 months.

He said the initial reaction of local regulators suggested that the deals would not be opposed. The merger between NEES and Eastern would go ahead even if National Grid's bid for NEES is blocked

Mr Jones said the fragmented New England power market made it ripe for further consolidation. Some 300,000 customers are supplied by Eastern compared with 1.35m by NEES.

He said combining head office, customer services and maintenance would allow Eastern Utilities to reduce its annual operating costs of $70m by a third. He expected 250 jobs would be cut at Eastern, through early retirement and voluntary redundancy.

Eastern Utilities share price fell mid-session on the New York stock exchange by $3⅞ to $28⅞. National Grid's shares rose in London by 5¾p to 500p.

N M Rothschild and Dresdner Kleinwort Benson advised National Grid on the purchase. Dresdner Kleinwort and HSBC are brokers to the British company. Merrill Lynch acted for NEES and Salomon Smith Barney for Eastern Utilities.

Schwab in move to stabilise internet trades

By John Authers and John Labate in New York

Charles Schwab, the largest online stockbroker, yesterday moved to stop highly leveraged trading in a group of 23 internet stocks, but said trading in some continued to increase from already hectic levels.

In December Schwab increased margin requirements – the proportion of the equity in an account which traders must maintain with the broker – from 35 to 50 per cent for a range of internet stocks. This has now been lifted to 70 per cent for 23 stocks, including E*Trade and Ameritrade, as well a range of internet portal sites and e-commerce groups such as Yahoo!, Infoseek, Lycos, Ebay, Amazon.com and Beyond.com.

Schwab said it was taking the measure primarily to reduce risk for itself and for customers. "We wanted to damp some of the enthusiasm behind some of this trading, which was increasingly volatile," it said.

Other brokerages have taken similar actions. Waterhouse Securities has imposed a 100 per cent margin requirement on eight internet stocks, including Ebay and Amazon.com, while it has a 50 per cent margin requirement on a further 40 stocks.

Schwab also prohibited trading in some internet stocks on the first day after their initial public offerings, and has measures to discourage trading in internet stocks. When online customers order a trade in these stocks, they are presented with warning that trading is volatile, and that the price could move significantly.

Research from Credit Suisse First Boston shows trades on the internet increased by 34 per cent between the third and fourth quarters of last year, to an average of 340,000 per day. Schwab had 27.4 per cent of the market.

However, Schwab said there had been a change in investors' enthusiasm since then, with a heavy increase in volumes. It is now handling 80,000 calls simultaneously.

Internet broking stocks saw intense activity yesterday, with E*Trade up 16 per cent in early trading after completing a stock split, and Ameritrade gaining 23 per cent.

BROADCASTING GRUPO TELEVISA HOLDING COMPANY REACHES DEAL TO CUT LIABILITIES BY $733m

Televicentro agrees debt restructuring

By Henry Tricks in Mexico City

Televicentro, the holding company of Grupo Televisa, Mexico's largest broadcaster, announced yesterday it had agreed with creditor banks on the restructuring of $1.27bn of debt, thereby reducing its liabilities by $733m.

Televisa's shares surged in early trading on news of the agreement, which was likely to end speculation that Emilio Azcárraga Jean, Televisa chairman, would be forced to sell part of his Televicentro holdings to a strategic partner to pay off debts.

Instead, he struck a deal with creditors to capitalise $213m of Televicentro's debt and transfer it to them in trust. Analysts said this would temporarily weaken his control, but he has a four-year option to repurchase the shares at a premium to the initial capitalisation price.

Another $290m of debt belonging to an indebted Televicentro subsidiary, Grupo Alameda, was released by the unwinding of a share repurchase agreement due to mature beginning in 2001. Alameda's capital stock would be sold to a Televisa subsidiary for $230m, the company said. This would also be applied directly to debt reduction, it said.

The remaining $533m in liabilities would be rolled over into new Televicentro debt, with maturities of three to five years. The debt would be backed by Televicentro stock, with principal and interest payable at maturity.

As well as acquiring Alameda, whose sole assets are 4.19 per cent of Televisa shares and net operating losses of $530m, Televisa said it would also launch a $50m share repurchase programme and establish a stock option plan for executives.

Media analysts welcomed the agreement, saying it was not dilutive of Televisa's shares. It would also free Mr Azcárraga Jean from the grip of his creditors, which he has been in since he inherited the company and its debts at the age of 29 on his father's death in 1997.

Televisa had planned a secondary share offering to repay bridge loans from US banks, but its ambitions were thwarted last year by financial-market turmoil in the wake of the Asian crisis.

Last November, Mr Azcárraga Jean announced that US creditors Goldman Sachs and Chase Manhattan Bank had sold their stakes rather than take part in the restructuring.

At that time, Mr Azcárraga Jean said Televicentro's main Mexican creditors were local banks Banamex, Bancomer and Inbursa, the latter having bought $70m of Televicentro-related debt from Goldman Sachs. Santander Investment, the US-based Spanish bank, was leading international creditors.

NCI plans offering this year

By Paul Taylor

NCI, the California "information appliance" software group, plans an initial public offering this year, provided market conditions for internet-related technology stocks remain favourable, said Michael Kertzman, chief executive.

Mr Kertzman, who joined the group three months ago from Sybase, the database company, as president and chief executive, was in London negotiating deals for NCI's set-top box software which enables cable operators to offer subscribers internet access and other interactive services.

Earlier this month NTL, the third-largest UK cable television group, said it was launching an internet TV service using NCI's software on analogue set-top boxes.

NCI was set up in 1996 with backing from Oracle, the database and business software group, to develop software for the next generation of information appliances. The company has spent over $100m developing its eNavigator software.

Shareholders include Oracle, Netscape, Acer America, NEC, Nintendo, Sega and Sony and most of NCI's 260 employees. NCI has yet to pick financial advisers for its flotation.

Aircraft maker is rocked by currency turbulence

John Barham and Richard Lapper examine how the Real's devaluation has affected Embraer, the Brazilian aviation group

A row of gleaming new jets stands in the harsh sunlight of São José dos Campos, home base of Embraer, one of the world's most successful regional aviation companies. Painted in the livery of some of the fastest-growing airlines in North America and Europe, Embraer's elegant jets should ensure that the company can cruise comfortably above Brazil's economic turmoil.

The devaluation of the Real, which has lost over 40 per cent of its value since January 13, should help privately owned Embraer, which has almost all its revenues in dollars but adds half the value of its aircraft locally, in Reals. But Mauricio Botelho, chief executive, says Embraer also stands to suffer from devaluation and from Brazil's diminished international stature: "Devaluation hit the credibility of the country and this makes it harder to sell aircraft."

Access to capital, a major problem for many Brazilian companies, has become more difficult as interest rates rise at home and abroad. Financing plans Embraer devised to help buyers to pay for its aircraft are becoming more difficult to arrange. Imported parts become more expensive in Reals.

Like most Brazilian companies, Embraer's debt is manageable, but devaluation has still increased the cost of servicing its $370m net external debt. And devaluation makes it harder to find fresh capital to develop new aircraft, such as a planned 70- to 90-seat jet airliner which, Mr Botelho says, will cost about $500m to develop.

Access to capital, a big problem for many Brazilian companies, has become more difficult as interest rates rise

He says: "In the very short term, there will be an advantage from [devaluation], but I do not know about the medium to long term. We are paying higher taxes and paying significantly more for loans and this will impact on prices." Instability makes "it very difficult to decide the cost of something that will be delivered in three years".

The company has shelved plans to raise equity through an international share offer. However, it is still looking for a "strategic ally" to take a stake in the company. Saab Aerospace is a frequently mentioned name. This partner would share development costs, give Embraer added marketing "clout" in external markets, and improve its access to the international financial system. Embraer's net indebtedness of 99 per cent of shareholders' equity in September 1998 was high by Brazilian standards.

Brazil's economic crisis has cast a shadow over a company which emerged from virtual insolvency as a state-owned company four years ago to become a significant force in a competitive international market.

Two Brazilian state pension funds and Banco Bozano Simonsen, a leading banking and industrial group, bought 89 per cent of Embraer from the government in December 1994. Mr Botelho, a top Bozano Simonsen executive, turned the company around by hacking at costs, raising productivity six-fold, selling more aircraft and virtually betting the company on a new product, the ERJ-145, a 50-seat jet designed for the regional aviation market.

While former giants such as Fokker fell by the wayside, Embraer grew to become the fourth biggest aircraft-maker in the world, claiming 45 per cent of the international regional jet aircraft market. Analysts expect 1998 revenues of more than $1bn and return on equity above 30 per cent.

An Embraer ERJ-145 of the Continental Express fleet AP

Mr Botelho says: "The concept of a regional jet was a breakthrough in the industry." Until the early 1990s most airlines used turboprop aircraft on short routes. Embraer – and Canada's Bombardier, its main competitor – disproved that. Embraer now has $4.5bn in firm orders for its aircraft plus $4.5bn in options.

Canada has filed a complaint on Bombardier's behalf at the World Trade Organisation, claiming that Brazil's government subsidises Embraer's export finance. Brazil has filed a counter-claim that Bombardier receives covert government aid. The WTO is expected to rule in March.

Mr Botelho's decision to build the ERJ-145 saved Embraer. He says defiantly that "Embraer is the only company below the equator to control the full [aircraft manufacturing] cycle from conception to manufacturing. We are here to stay." But the Real's collapse makes it all the more urgent to find a strategic partner, without which developing a successor to the ERJ-145 will become even harder.

NEWS DIGEST

PHARMACEUTICALS

Warner-Lambert names new chief without delay

Warner-Lambert surprised Wall Street with its timing of a change at the top yesterday, putting Dutch-born Lodewijk de Vink at the helm of the US pharmaceuticals and consumer products group.

The switch came as Melvin Goodes, chairman and chief executive since 1991, said he would stand down at the end of April, shortly after his 64th birthday and a year before the company's normal retirement age.

Though the timing was a surprise, the identity of Mr Goodes' successor was not: Mr de Vink, who had been a senior executive at rival Schering-Plough until 1988, has been Warner-Lambert's president and chief operating officer for eight years.

Mr de Vink, who became an American national in 1991, inherits a company which is in far better health than it had been during much of Mr Goodes' tenure. Patent expiries on some of its biggest drugs and slower growth in consumer products had left it lagging its industry. However, two new blockbuster drugs have reignited the group's growth and share price in the past two years, and Mr de Vink, 53, said his ambition was to push it into the industry's top league. **Richard Waters, New York**

HEALTH INSURANCE

Aetna ahead 29% in term

Aetna, the largest US health insurer, yesterday recorded a 29 per cent increase in fourth-quarter operating earnings to $184.5m, as it continued to recover after the initial difficulties integrating its 1996 acquisition of US Healthcare.

Aetna US Healthcare showed a 40 per cent increase in operating earnings, excluding unusual items, from $87.6m to $122.6m. Aetna's retirement services division, which covers pension fund management, also saw a strong increase, from $42.6m to $50.4m. Aetna International, the vehicle for the company's aggressive strategy of investing in general insurance and other financial services groups in developing economies, saw a 29 per cent increase in operating earnings, from $35m to $45m.

While the results were better than expected, Aetna's shares fell sharply in early trading, down almost 4 per cent or $3⅞ at $86⅞. **John Authers, New York**

AEROSPACE COMPONENTS

Eaton in $1.7bn buy

Eaton, the US industrial group, yesterday agreed to buy Aeroquip-Vickers, which makes aerospace and automotive components, for $58 a share or a total of $1.7bn – its largest acquisition to date. Eaton said it planned to issue stock later this year to generate about $400m to help pay for the deal.

Eaton, which had 1998 sales of $6bn, said it bought Aeroquip-Vickers because it wanted to become global leader in mobile hydraulics.

The deal should have no impact on Eaton's 1999 earnings but is expected to add $1 a share to profits in three to five years, Eaton said. Aeroquip-Vickers shares jumped $20½ to $55¾ in early trading, while Eaton shares were down $7⅞ at $68¾. **Reuters, Cleveland**

NTC offers internet telephony short-cuts

By Alan Cane

Networks Telephony Corporation, an El Segundo, California start-up, is offering a short cut to companies eager for access to commercial-quality internet telephony.

Yesterday it launched in the US and Europe products aimed at internet service providers and smaller ("second tier") telecommunications operators. One product makes it possible to make a phone call over the internet from a personal computer; another routes calls over the internet between conventional handsets.

Calls over the internet are significantly cheaper than conventional long-distance and international calls, because of differences in pricing structures and the lower cost of switching equipment. The ability to offer internet telephony in addition to conventional internet access is attractive to many service providers.

NTC offers its customers "turnkey" (ready to use) installations, saving substantially on the cost and time which would have to be invested in building an internet telephony system from scratch.

Where NTC differs from other internet telephony companies is in its use of the private global network owned by Infonet Services Corporation to carry its customers' traffic.

Quality, as a result, is equivalent to conventional calls, with none of the delays or distortion which mar internet telephony over the public switched network.

Most of NTC's senior staff come from Infonet, an international network owned by a group of national operators including KDD of Japan, Telia of Sweden and Telstra of Australia. Infonet has provided much of the seed capital to establish the company.

NTC's investment bankers are raising up to $50m in a round of financing due for completion in the summer.

NTC is now focusing on Europe rather than the US because it believes Europe's higher international call prices offer it opportunities.

ARGENTINA DEAL CREATES BIGGEST IN THE SUPERMARKET SECTOR

Exxel and Promodès buy Tía chain for $630m

By Ken Warn in Buenos Aires

Exxel, the Argentine private equity fund, and Promodès, the French retailer, are to form Argentina's biggest supermarket chain with the purchase of the privately owned Casa Tía chain for $630m.

Tía's operations will be merged with those of Supermercados Norte, which the two groups already own, they said yesterday. The combined chain will have annual turnover of some $3bn and 123 outlets with a total 254,000 sq m of sales space, Exxel said.

Exxel and Promodès aim is to invest a further $600m in the combined chain over the next three years, opening about 60 stores.

The sale of Tía has been under negotiation for several months, with Exxel and Promodès long seen as the likely buyers.

However, the price tag has not been cut as a result of the regional economic uncertainty unleashed by Brazil's devaluation last month.

International retail chains such as Wal-Mart of the US and Ahold of the Netherlands have entered the Argentine market in force in recent years, attracted by the region's highest per capita income and the local industry's high degree of fragmentation, especially in food retailing.

Promodès entered the market last September, paying $420m for 49 per cent of Norte, but leaving Exxel in management control.

The wave of investment has produced a high level of modernisation and consolidation, with smaller chains absorbed by the bigger groups.

Sales growth has also come at the expense of traditional retailers, such as street-corner grocers.

"Many of the world's top supermarket groups are fighting over the Argentine turf," said Christopher Ecclestone, head analyst at the Buenos Aires Trust Company.

"It was a very underdeveloped market, but now many Argentine supermarkets are as modern as those in the US. Pressure on margins is bound to get worse."

Of the country's biggest supermarket chains, only two – Coto and Patagonia – remain under Argentine control.

Coto has a strong grip on the underpopulated south, where vast distances and logistical problems have deterred the international chains.

Exxel operates a series of private equity funds, whose investors include big US institutional investors.

It suffered a setback last month when its efforts to buy branded foods group Molinos Rio de la Plata from grains multinational Bunge International were thwarted by a last-minute bid from Argentina's wealthy Perez Companc family.

Rohm & Haas acquires Morton in $4.6bn deal

By Richard Waters in New York

Rohm & Haas yesterday unveiled a $4.6bn acquisition that would make it the largest pure speciality chemicals company in the US.

The Philadelphia-based company said it had agreed to buy Morton International, based in Chicago, whose products range from salt to speciality adhesives and materials for the semiconductor industry.

The acquisition comes against a difficult background for the speciality chemicals producers, as falling prices have squeezed margins and forced a round of cost-cutting.

However, Rohm & Haas has one of the better records on slicing its costs and a relatively unencumbered balance sheet, putting it in a sound position as the industry consolidates.

Morton's $2.5bn of revenues will lift Rohm & Haas's annual sales to $6.5bn, making it the largest pure speciality company in a fragmented industry, though still behind the speciality divisions of DuPont and Dow Chemical.

The two companies said the combination would make them the biggest or second-biggest producer in a range of chemicals. These include speciality adhesives for packaging, tape and labels; certain types of powdered coatings; and products for makers of semiconductors and circuit boards, where the enlarged company will derive $1bn of its sales.

The deal would boost Rohm & Haas' range of products and international reach, putting it in a stronger position to follow customers as they expanded globally, said Lawrence Wilson, chairman.

The merger would produce cost savings of $200m a year, in addition to the $50m-$60m a year Rohm & Haas has said it would cut by next year, the companies said.

Under the terms of the deal, Rohm & Haas will pay $37¼ a share for Morton, two-thirds of it in cash and the remainder in stock.

The stock portion is subject to a collar, with a maximum of around 1.33 shares, and a minimum of about 1.09, being offered for each Morton share. Rohm & Haas will also assume Morton's $268m of net debt.

The deal would boost Rohm & Haas's debt-to-equity ratio to 60 per cent, but was not expected to hurt its single-A credit rating, said Lawrence Wilson, chairman.

Morton's stock jumped $9⅞ on the news to $35⅞, while Rohm & Haas shares edged down $¼ to $30⅞.

See Lex

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NEWS DIGEST

UTICALS

-Lambert names
hief without delay

URANCE

head 29% in term

CE COMPONENTS

in $1.7bn buy

SUPERMAR

Promodès
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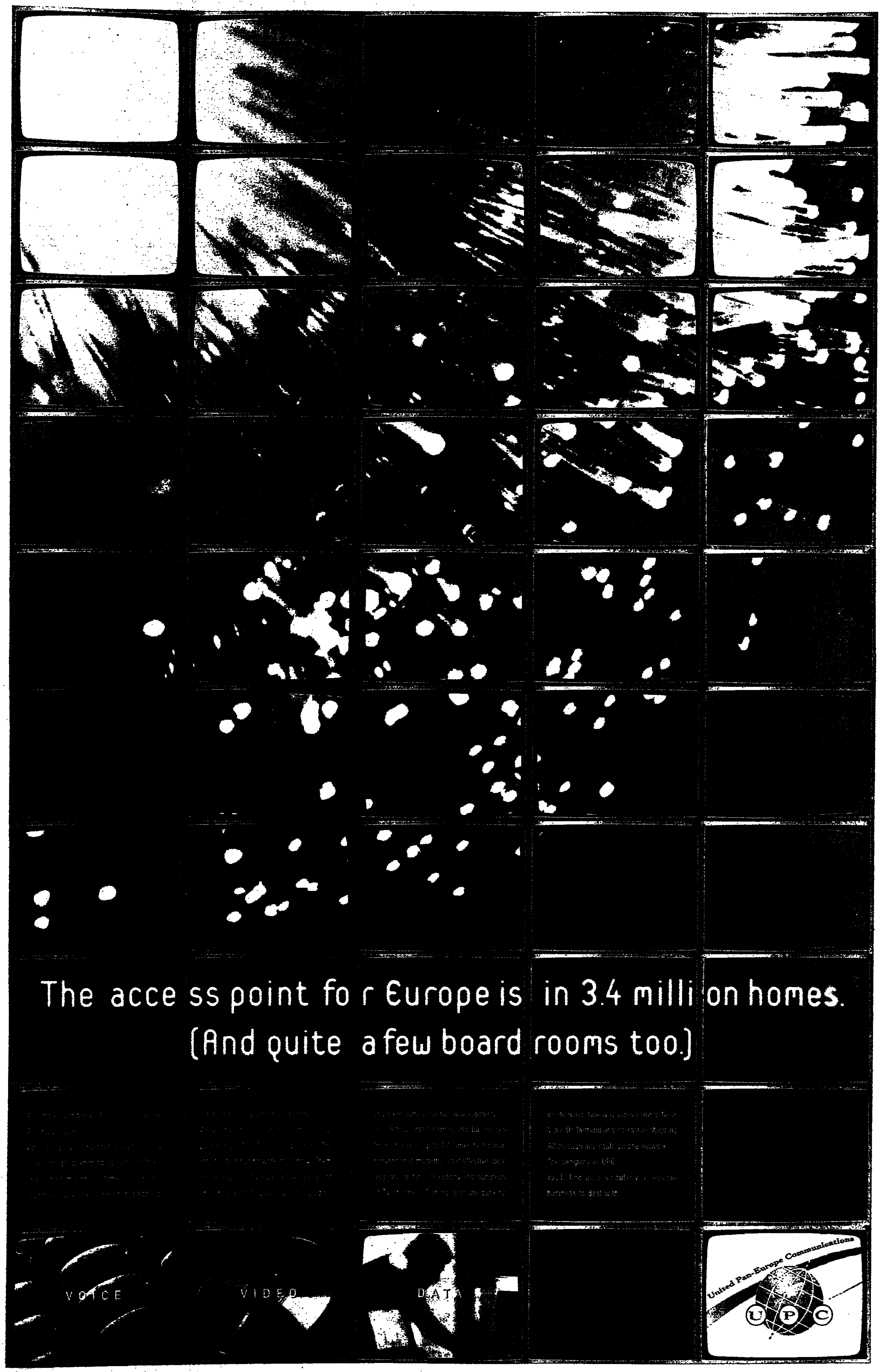


MERGERS INTRODUCTION OF THE NEW EUROPEAN CURRENCY IS LEADING TO CLOSER LINKS BETWEEN FINANCIAL INSTITUTIONS

Consolidation in banking picks up speed

By George Graham, Banking Editor, in London and Tony Barber in Frankfurt

Within a month of the birth of the euro, consolidation in European banking is gathering speed.

Hot on the heels of last month's merger of Spain's Banco Santander and Banco Central Hispano to form BSCH comes the takeover by Société Générale of its French neighbour, Paribas.

In both cases, top managers said the new European currency had changed the rules of the game – and the general message that consolidation is happening contributed to a general rise in bank shares across Europe yesterday.

With a combined market capitalisation of €30bn ($34bn), the new French group suddenly reaches a size that enables it to play in the same league as banks such as BSCH, and to look down, in size terms, on such established European institutions as Deutsche Bank, Banco Bilbao Vizcaya and ABN Amro.

But the SG Paribas merger also carries more specific implications for the shape of European financial services, because of the web of cross-shareholdings and joint ventures the deal sets up.

Daniel Bouton, who will become vice-chairman and chief executive of the new group, said he was open to combinations with most European banks, but warned it was much too early to speculate on the form these links might take.

Much of the web involves French institutions, where the mechanics of the financial relationship are overlaid by the personal links that characterise the closed world of the Paris financial elite.

In a central position stands Axa, the French insurance giant built up by Claude Bébéar which will end up as the largest institutional shareholder in the new group, with 3.61 per cent. Axa also holds a stake in Banque Nationale de Paris, France's other leading commercial bank.

The deal could complicate the picture for the privatisation of Crédit Lyonnais. SG Paribas would still like to be a core shareholder, but in its enlarged form may be a less attractive proposition for Crédit Lyonnais management. There will, at the least, be an operational link in Crédit Lyonnais' association with Paribas' consumer finance unit, Cetelem.

But the ramifications spread wider. Europe's largest insurance group, Allianz of Germany, will end up with a stake of 3.49 per cent in SG Paribas through the majority holding it acquired last year in the French insurer AGF. Allianz has no aspirations to become a bank, but it is keen to build up a global asset management business to complement its insurance activities.

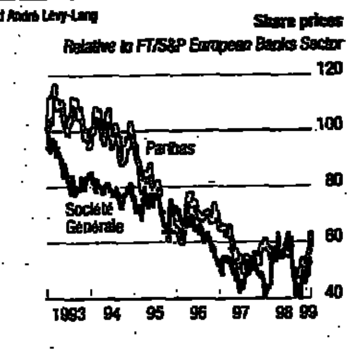
The French merger could also have effects in Italy, where Paribas holds a stake in Banca Commerciale Italiana while SocGen has a toehold in Unicredito. This could nudge BCI towards Unicredito, in preference to a proposed deal with Banca di Roma to which BCI objects.

Société Générale's chairman Daniel Bouton (left) and Paribas' chairman of the executive board André Lévy-Lang

1998*	Société Générale	Paribas	SG Paribas
Total assets	€404.0bn	€275.0bn	€679bn
Shareholders' equity	€10.2bn	€8.9bn	€19.1bn
Tier one capital	€10.7bn	€8.4bn	€19.1bn
Gross revenues	€10.0bn	€5.7bn	€15.7bn
Net income	€1.1bn	€1.0bn	€2.1bn
Return on equity	11.2%	11.6%	11.3%
Number of employees	57,000	21,000	78,000

Source: company * Historical data translated into euros using locked-in rate of 31/12/98

Share prices



Generation gap strengthens unlikely pairing

André Lévy-Lang's reluctance over mergers was overcome by an 'almost perfect' fit and an absence of executive sparring

By Clay Harris, Banking Correspondent

Late last year, André Lévy-Lang was distinctly sceptical about mergers. "I think one tends always to underestimate the cost and the effort in management time and sometimes to overestimate the benefits," the Paribas chairman mused.

"The easy part is saving on costs," he said then in an interview with the Financial Times. "Maybe it's the toughest to accomplish from a human standpoint, but technically it's easy to identify the costs. The toughest part is integrating the businesses and the culture and the customer."

Yesterday, as reality replaced hypothesis, Mr Lévy-Lang and Daniel Bouton, his Société Générale counterpart and heir-designate at the new SG Paribas, were keen to stress that this was a merger that could – and would – work.

"We share the same culture and the same values," Mr Bouton said. "The fit was almost perfect."

He and Mr Lévy-Lang argued that SG and Paribas overlapped far less than any other putative domestic partner for either. Even in investment banking, the area of greatest overlap, SG's strength in derivatives was complemented by Paribas' in fixed-income.

Nonetheless, job cuts will be necessary and the banks said any mandatory redundancies would fall on the 45 per cent of their 78,000 worldwide staff who work outside France.

Within France, the banks said attrition and early retirement could achieve the necessary reduction.

They steered clear of naming any numerical targets for staff cuts.

In investment banking SG's strength in derivatives was complemented by Paribas' in fixed-income

The banks used the recent few weeks of active negotiations – "building on old contacts", Mr Lévy-Lang said – to determine who would run what business, hoping to forestall the jockeying for positions that has bedevilled other mergers.

The quest for certainty started at the top. Mr Lévy-Lang, 61, has agreed to stand down in 2002 as chairman and chief executive of SG Paribas, in favour of Mr Bouton, 48, who will be vice-chairman and chief executive until then.

The executive generation gap and Mr Bouton's willingness to bide his time may have reinforced the pairing-off. With other prospective partners headed by executives closer to Mr Lévy-Lang's age, a hard choice might have had to be made immediately.

They and four senior executive vice-presidents – Philippe Citerne and Patrick Duverger of SG, and Jean Clamon and Bernard Müller of Paribas – will oversee integration.

At the divisional level, Mr Duverger will head investment banking, potentially the most contentious area, backed up by his SG colleague Xavier Debonneuil and Philippe Blavier of Paribas. Elsewhere, Paribas executives will head specialised financial services (Philippe Wahl), proprietary investments (Amaury de Seze) and real estate (Michel Clair).

SG's Mr Citerne will head asset management and banking services and supervise the retail banking business headed by Didier Alix for the Société Générale network and Bruno Flichy for Crédit du Nord, the business Paribas sold to SG in 1997.

Paribas' imminent reunion with Crédit du Nord gives another indication of how Mr Lévy-Lang's tune has changed.

Late last year, outlining a strategy of seeking "market segments in which we think we can have a leadership position", he specifically excluded "traditional retail banking". He said: "We would have to have very strong reasons to go back there." The chance to merge with SG apparently met the test.

Stinnes makes offer for BTL

By Tim Burt in Stockholm

Stinnes, the German freight haulage company, yesterday announced plans to create Europe's largest transport and logistics group by launching a SKr3.3bn ($423m) bid for BTL, the Swedish transport company.

Shares in BTL jumped 36 per cent to SKr44.70 in Stockholm following the "friendly approach" by Stinnes, a subsidiary of the Veba industrial group.

It signals the latest consolidation in the haulage and logistics sector, which gathered pace last month when Deutsche Post, the German post office, bid SFr1.5bn ($1.06bn) for Danzas, the Swiss freight group.

Stinnes already has close links with BTL, and 18 months ago became its largest shareholder by acquiring 35 per cent of the capital and 49.9 per cent of the voting rights.

If BTL shareholders accept the full takeover bid – worth SKr45 a share – the enlarged group will become the world's second largest sea freight company and the fourth largest handler of air cargo.

BTL senior management broadly welcomed the Stinnes approach, but declined to make a formal recommendation before completing an internal study of the offer.

Nevertheless, Hakan Larsson, BTL chief executive, said: "Full co-ordination will allow us to capitalise on the synergy effects more quickly and increase the potential to improve profitability even further."

Mr Larsson is expected to become head of the enlarged group's land-based operations, responsible for some 20,000 employees and annual sales of SKr30bn.

The deal is expected to pave the way for a flotation of Stinnes by Veba, which has already signalled it could sell 49 per cent of the subsidiary through a institutional placing in the first half of this year.

BTL, meanwhile, yesterday reported pre-tax profits up from SKr440m in 1997 to SKr505m, on sales that rose from SKr18.1bn to SKr19.1bn in 1998. Earnings per share rose from SKr3.30 to SKr3.55.

The company said that demand for transport and logistics services had weakened in the fourth quarter following the economic turmoil in south-east Asia and Russia, but predicted that benefits from its partnership with Stinnes would contribute to increased profits this year.

NEWS DIGEST

AUTOMOTIVE INDUSTRIES

Fiat offered $13bn to buy all of Volvo operations

Fiat offered $13bn to acquire the entire Volvo group, double the amount Ford is proposing to pay for the Swedish company's car division, Italian bankers said yesterday. Although there have been widespread reports that the Italian automotive group had offered Volvo only $7bn for all its operations, Fiat had put on the table a substantially higher bid, the bankers said.

The disclosure of the substantial Fiat bid risks having repercussions on the agreed Ford-Volvo car deal, which has yet to be approved by Volvo shareholders. The bankers suggested Fiat was still hoping Volvo shareholders might persuade the Swedish company to reconsider the Ford deal, thus reviving Fiat's chances in the bidding.

Volvo, which is planning to put the Ford offer to shareholders next month, declined to comment on the value of Fiat's putative offer.

Senior Volvo officials confirmed that the company had been in talks with other automotive groups, but reiterated that the proposed SKr50bn ($6.4bn) disposal of the car division would be recommended to shareholders. Some leading institutional investors in Sweden said yesterday Fiat should make a formal tender offer.

Paolo Fresco, new Fiat chairman, said on Friday that Fiat was interested in acquiring not just the Volvo car division but the entire Swedish group. But given the shareholder revolt that scuppered Volvo's planned merger with Renault of France in 1993, some fund managers warned a Fiat bid would have little chance of succeeding unless the Italian group secured irrevocable support from large institutions before putting a cash offer to the Volvo board.
Paul Betts, Milan, Tim Burt, Stockholm

OIL MERGER

Regulator calls for more data

Oil companies Total and Petrofina have withdrawn notification of their planned merger from the European Commission's antitrust authorities and will renotify the deal later, the Commission said yesterday. An official said it needed more data to assess the full impact of the acquisition and eliminate any competition concerns. Total of France confirmed that the Commission, which vets all mergers over a certain size, had asked for more information on the issue of storage, particularly in France. **Emma Tucker, Brussels**

'ELF AFFAIR'

FFr1.5bn 'embezzled'

At least FFr1.5bn (€229m, $260m) was embezzled from Elf Aquitaine, the French oil company, between 1989 and 1993, Philippe Jaffré, chairman, said yesterday. Judicial investigations into some of the company's dealings in this period have been going on for some years in what has become known as the "Elf affair", which involved alleged embezzlement by former employees.
David Owen, Paris

Byblos buy hastens Lebanese bank mergers

By James Schofield in Beirut

Consolidation of Lebanon's banking sector took a step forward yesterday, as Byblos Bank, one of the country's five biggest, bought Banque Libanaise pour le Commerce (BLC), creating a business with a market capitalisation of about $840m.

It also positions Byblos Bank to become the first Lebanese bank to push beyond its borders to tap the large expatriate business communities in the United Arab Emirates. "We are very happy to increase our activities in Lebanon, to spread them out across the region and to increase our presence in the United Arab Emirates," said Francois Bassil, Byblos Bank chairman and chief executive.

The new banking group is the biggest in Lebanon in terms of shareholders' equity, market capitalisation and number of branches. It will be slightly smaller than the country's largest bank in terms of assets, Banque du Liban et d'Outre-Mer, with total assets valued at more than $4.4bn.

The deal values BLC at an estimated $220m. The Aboujaoude family, which owned 52.8 per cent of BLC, will sell its stake for $109m, while other shareholders will be offered Byblos stock at a ratio of one for every seven BLC shares. Two Aboujaoude family members are expected to join the board of directors.

The most significant in a wave of recent acquisitions, the deal will give Byblos Bank a total of 82 branches in Lebanon, total deposits of $3.28bn and loans of $1.37bn.

Felix Jean Aboujaoude, chairman and chief executive of BLC, said shareholders of both banks would benefit. "Size is becoming increasingly important for the banks in the region if they wish to withstand competition from the global marketplace."

BLC, a relatively large bank for Lebanon, has a profitable and well capitalised business, with extensive retail banking services and a good portfolio of corporate names.

The deal will also be seen as part of the trend away from Lebanon's traditional network of small, family-owned and under-capitalised banks.

Bassam Yammine, a senior official at Lebanon Invest, an investment bank, said BLC had been moving in the direction of loosening family control.

FLOTATION INVESTORS TO BE OFFERED 62% OF GROUP IN IPO

Neopost set to list in Paris with €600m tag

By Vincent Boland

Neopost, Europe's largest maker of mailroom equipment, is to list on the Paris stock exchange later this month in an initial public offering that will value the company at about €600m ($681m).

The IPO will see 62 per cent of Neopost floated. It is the latest in a line of French equity offerings expected this year, which includes a strong showing by private sector companies as well as government-sponsored privatisation deals.

A price range of €18.50 to €23.50 was set yesterday for the 17.8m Neopost shares being offered to French and international investors, valuing the transaction at between €331m and €421m.

Trading in the shares is due to start on the main market of the Paris bourse on February 18. Warburg Dillon Read, the investment bank, is global co-ordinator for the offering.

BC Partners, the European venture capital group that took control of Neopost in 1997 when it bought out other shareholders, is cutting its stake in the company through the IPO from 69 per cent to 15 per cent.

Management is to cut its stake from 21 per cent to 14 per cent, and Crédit Agricole, the French bank, will reduce its ownership from 10 per cent to 8 per cent.

Neopost, which claims the number two position in the global market for mailing systems behind Pitney Bowes of the US, was spun off by Alcatel, the French technology group, in 1992 in a leveraged buy-out.

The company had net sales of FFr2.4bn (€366m, $416m) in 1997 and earnings before interest and tax of FFr447m. In the nine months to October last year, sales reached FFr1.9bn, and Jean-Paul Villot, chairman and chief executive, said sales in fiscal 1998, which ended on Sunday, were expected to reach FFr2.6bn.

France accounts for 48 per cent of Neopost's revenues, the US for 38 per cent, and the UK for 13 per cent.

Mr Villot said the aim was to increase revenues by 5 per cent annually over the next three years, with a targeted margin before interest and tax of 18-20 per cent of net sales.

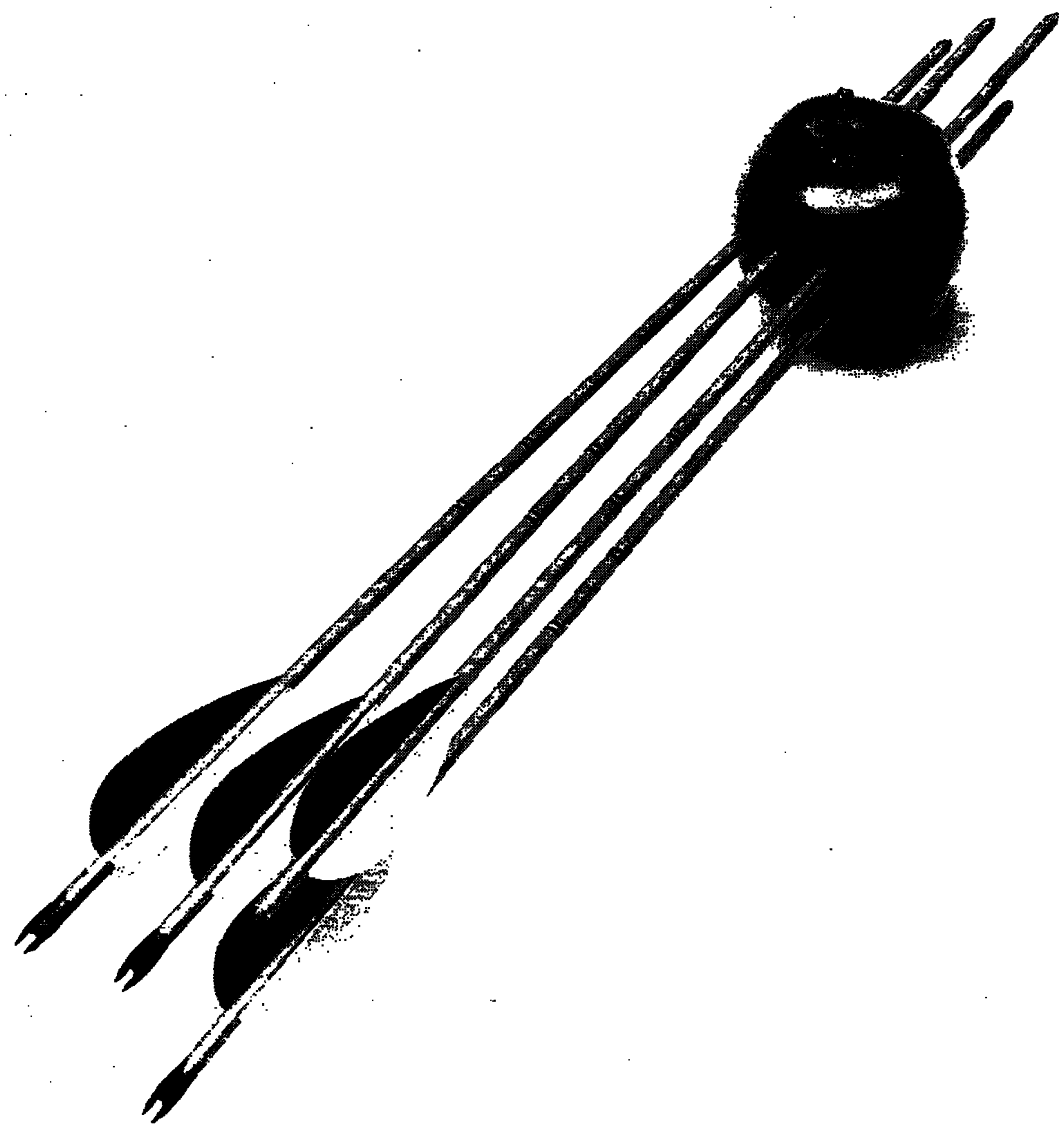
Apart from its 70 senior managers, who will own the 14 per cent stake, the IPO includes a tranche of shares aimed at employees, and a stock option plan is to be put in place this year.

● TNT Post Group, the acquisitive Dutch postal and express company, yesterday unveiled its first Portuguese takeover in the form of Tranjato, a small parcel delivery service, writes Jeremy Gray in Amsterdam.

The move comes after its purchase in December of Jet Services, the mid-sized French courier service for FFr2bn (€305m, $346m).

The Dutch group, which began serving Portugal in 1995, said the purchase of the 16-year-old Tranjato – which TNT described as Portugal's leading express service – would extend its reach in the country.

Terms of the deal were not disclosed.



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STEEL YOO SANG-BOO SAYS PREDECESSOR'S PROJECTS COULD PRESENT OBSTACLES TO SMOOTH PRIVATISATION

Chairman attacks Posco investment record

By John Burton in Seoul

Yoo Sang-boo, chairman of Pohang Iron & Steel (Posco), has criticised his predecessor for making poor investments, totalling nearly $4bn, under political pressure.

Mr Yoo warned that the investments could "pose obstacles for a smooth privatisation" of the world's second largest steel maker, which made record profits of Won1,120bn ($953m) in 1998. The state is expected to sell its remaining 21.6 per cent stake in Posco this year.

The remarks by Mr Yoo related to Kim Mahn-je, who served as Posco chairman for five years until March 1998 and expanded the steelmaker's operations in a quest to become the world's biggest producer.

Among the projects that Mr Yoo criticised were the construction of a new blast furnace and mini-mill facility in Korea, a mini-mill investment in Indonesia and Posco's entry into mobile telecommunications with a leading stake in Shinsegi, a cellular phone operator.

Mr Yoo also regarded as "a mistake" Posco's decision in 1997 to buy production facilities from debt-heavy Sammi Steel in a futile attempt by the government to prevent its bankruptcy.

Mr Kim was the first outsider to head Posco and was appointed by Kim Young-sam, then Korean president, after he sacked Posco's founder, Park Tae-joon, in what was regarded as a political vendetta.

The appointment last year of Mr Yoo, who joined Posco in 1970, marked a return to the company's tradition of relying on a cadre of long-serving executives to manage the steelmaker.

Posco would sell some of the troubled facilities or operate them through ventures with foreign or domestic partners, said Mr Yoo.

It is already cutting production capacity from 26.5m tonnes in 1997 to 24.3m tonnes this year to prevent a fall in steel prices caused by overcapacity.

Analysts have praised Posco for its focus on core businesses and for avoiding the reckless diversification that caused other Korean businesses to struggle under a mountain of debt.

It is one of Korea's most financially sound companies, with a debt-to-equity ratio of 85 per cent against 400 per cent for most other big Korean conglomerates.

Analysts expect Posco's earnings performance to improve when privatisation is completed. "The state has used Posco to subsidise the Korean manufacturing sector by limiting price increases for steel. Posco will now be able to charge market prices for its products, which should improve profits," said Mr Hwang Kidoo, steel analyst for W.I. Carr in Seoul.

Beijing to split state aircraft maker in two

Zhu Yuli: two new groups will both 'compete and co-operate' to wrest domestic airlines' business from the likes of Boeing (right) Reuters

By James Harding in Shanghai

China's huge state-owned aircraft manufacturer will be divided into two competitive corporate groups, as Beijing continues to break up industrial monopolies to boost efficiency in the state sector.

Aviation Industries of China (Avic), which employs 500,000 people, will be divided into two groups both engaged in the production and sale of military and civilian aircraft, the China Daily Business Weekly reported.

The break-up of Avic, which follows a similar restructuring of the state petroleum and chemicals industry last year, "reflected the central government's strategy of creating an efficient competitive business environment", the report said.

The restructuring also reflects the need for fundamental changes at Avic for the struggling state-owned aircraft maker to compete in the international aerospace industry.

Last year, Avic's ambitions of becoming a competitive commercial jet manufacturer were seriously dented when plans for joint-venture manufacturing with foreign partners of two commercial jet models were shelved because of weak demand from China's domestic airlines.

Avic has set out an aggressive programme of redundancies, cutting its workforce by 150,000 – one-fifth of the total – over the next three years in an effort to improve efficiency and boost profitability. One of the issues likely to hamper the proposed division of the company will be the handling of the redundancies and responsibility for welfare payments.

Avic will be broken into two distinct groups, with administrative functions handed over to the State Commission of Science, Technology and Industry for National Defence, according to the report.

The proposed division of the group, which has a wide range of component businesses including 100 large and medium-sized enterprises, 30 research institutes and seven state-funded laboratories, is under consideration by the State Council, China's cabinet.

Zhu Yuli, Avic president, said: "The two groups will both compete and co-operate."

Japan life insurers break with tradition to fight back

Struggling sector aims to revive fortunes through mergers, stock market offerings and direct marketing, writes **Naoko Nakamae**

As much of Japan's vast life insurance sector grapples with the bleak business environment and contemplates the introduction of new legislation and an examination by the *Financial Supervisory Agency*, the sector's watchdog, four domestic life insurers are pointing the way forward.

The recent tie-up between two mid-size life insurers – Tokyo-based Taiyo Mutual and Osaka-based Daido Mutual – highlights the pressures emerging in the Y190,000bn ($1,634bn) sector, and in a break with corporate tradition, Mitsui Life last year became the first Japanese mutual life insurance group to announce its intention to become a listed company.

At present, almost all of Japan's largest life insurance groups are mutual groups. Several groups are also looking at keeping costs down by marketing their products directly rather than via the traditional network of agencies.

The alliance between Taiyo and Daido aims to take advantage of the former's strength in the retail business and the latter's in the small corporate business. With combined assets of about Y12,350bn – which would make the merged group the fifth largest life insurer in Japan – the two are considered the strongest and best-capitalised companies in the second-tier range.

"The life insurance market is close to saturation," says Taiyo president, Masahiro Yoshiike. "I doubt companies will be able to survive with single business lines any more. But it's hard to carve out new niches; that's why we thought it better to tie-up with a company with well established strengths in other areas."

The announcement was hailed by analysts. "It's a pretty good move," said Robert Garone, non-bank financials analyst at Dresdner Kleinwort Benson.

'I believe listed status will stand us in better stead for the next 50 years – it will be easier to raise capital'

Taiyo and Daido have high solvency margins of 873 per cent and 1,017 per cent respectively, well above the industry average of 680 per cent. But they have also been plagued by non-performing assets, plunging stock and land prices, and the appreciation of the yen.

"This fiscal year-end will be a tough one for our industry, as many companies will be writing off bad loans. Fiscal 1999 should be a much better reflection of individual life insurers' health," Mr Yoshiike said.

Mr Yoshiike said he was also seriously considering transforming Taiyo's status from a mutual to a listed company when the government introduces legislation in the sector.

"Becoming a listed company will enhance management mobility. Although we've been a mutual company for the past 50 years or so, I believe listed status will stand us in better stead for the next 50 years. It will be easier to raise capital and by meeting the higher disclosure requirements, I hope it will also raise our credibility," says Mr Yoshiike.

Traditional life insurers, such as Taiyo and Daido have also been weighed down by expensive cost structures. But as Big Bang deregulation gets under way, several foreign and domestic life insurers have started to market directly.

The format has proved a success for Orix Life, a small life insurance company which is part of the Orix Group, Japan's largest leasing company. Orix Life says that its direct marketing sales have seen steady growth since it was launched in September 1997.

"Direct marketing is starting to take root in Japan," says Shinobu Shiraishi, president of Orix Life. "Obviously, advertising is our biggest cost, but we're already making a small profit [under US SEC accounting rules] in the direct marketing business. And the demand isn't coming from any particular demographic – it's a pretty even distribution."

Orix Life's interim report in September showed it had more than doubled its new individual life policies year-on-year.

Taiyo's Mr Yoshiike is also enthusiastic about direct marketing. "We plan to try direct marketing together with Daido as well," he says.

NEWS DIGEST

INDONESIA

Rise in tariffs gives boost to telecoms industry

Telekomunikasi Indonesia (Telkom) and its foreign partners, which include US West and Cable and Wireless, won a last-minute boost to revenues for February after the government approved an increase in tariffs. Telkom indicated last week that it believed the government would not agree to its request for an average increase of 24 per cent. But on Friday it appeared it had received at least this much, as rates for long-distance calls jumped 28.57 per cent, local calls went up 24.14 per cent and subscription rates rose between 9.7 and 17.6 per cent.

Telkom had said a 24 per increase would lift revenues by 13 per cent. But the company had said it needed an increase of 42 per cent to compensate for the foreign exchange losses of $400m in off-shore debt, if calculated at an exchange rate of Rp8,000 to the dollar.

Telkom is majority-owned by the state, but its public shares weigh heavily on the the Jakarta Stock Exchange Index and are listed in New York as well.
Sander Thoenes, Jakarta

SINGAPORE

New investors for VSIP

Vietnam Singapore Industrial Park attracted 11 fresh investment projects worth US$85m in 1998 despite falling foreign investments into the country generally.

VSIP said yesterday that the new investors included Japan Storage Battery, Nitto Denko Corporation, Dainippon Ink & Chemicals, Fraser & Neave, Super Coffeemix, Gold Roast Food Industry, Star Chemical, Sunlight Electrical, New Toyo International and Unza Group of companies.

The company said it had 33 confirmed investment projects worth $380m since its groundbreaking in May 1996.

VSIP, located about 17km north of Ho Chi Minh City in Binh Duong province, said it would start the construction of the second phase spanning some 190 hectares in different sub-phases. The first phase of 124 hectares was completed in late 1998.

It said the outlook was difficult but it would focus on attracting companies from the US and Europe and selectively from Japan.

VSIP is a joint venture between an eight-member Singapore consortium led by Sembawang Resources, a unit of SemCorp Industries, and Vietnamese state-owned Becamex. **Reuters, Singapore**

China groups' debt default rate rises

By James Harding

The credit squeeze in China appears to be putting a serious strain on a wide range of businesses, leading to defaults on overseas debt and domestic corporate debt.

Officials yesterday confirmed that six state-owned groups in the wealthy southern province of Guangdong had failed to meet payments on about RMB500m ($60m) of maturing debt.

The problems facing borrowers on domestic markets suggests that the liquidity pressures that have troubled Chinese companies with overseas exposure are taking hold at home.

The largest problem was with Maoming Acrylic Fibre, which was unable to repay principal on debt of more than RMB100m. The debt matured late last year, according to officials.

All the groups that have run into difficulties repaying debts are owned by Guangdong provincial government, which also owned Guangdong International Trust and Investment Corporation (Gitic).

The abrupt closure of Gitic, which filed for bankruptcy last month with debts of $4.37bn predominantly to foreign lenders, has caused a dramatic deterioration in lenders' confidence in Chinese risk and, in particular, in the strength of support for enterprises backed by the Guangdong government.

Fujian International Trust and Investment Corporation (Fitic) has been forced to undertake a radical restructuring to meet foreign debt and working capital demands, as overseas loan agreements worth $100m have been cancelled since the Gitic closure.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

Provisional Prices for Trading on 02.02.99 / Final Prices by Trading on 01.02.99

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	56.69	14.00	14.00	0.00
0100	56.69	14.00	14.00	0.00
0130	56.69	10.74	10.74	0.00
0200	56.69	10.74	10.74	0.00
0230	14.33	9.38	9.38	0.00
0300	14.33	9.38	9.38	0.00
0330	14.33	9.38	9.38	0.00
0400	17.00	9.38	9.38	0.00
0430	94.85	28.64	29.40	1.03
0500	94.85	22.94	23.70	1.03
0530	9.44	14.00	14.00	0.00
0600	9.40	11.00	11.00	0.00
0630	9.38	21.43	22.18	1.03
0700	12.88	21.43	22.18	1.03
0730	36.75	98.97	99.72	1.03
0800	44.47	98.97	99.73	1.03
0830	52.02	39.79	40.54	1.03
0900	52.02	45.79	46.56	1.03
0930	52.02	64.06	64.82	1.03
1000	52.02	64.07	64.85	1.03
1030	44.48	45.83	46.61	1.03
1100	44.48	41.95	42.73	1.03
1130	59.45	45.86	46.65	1.03
1200	59.45	45.88	46.69	1.03
1230	59.45	45.87	46.67	1.03
1300	59.45	43.80	44.59	1.03
1330	58.83	45.82	46.59	1.03
1400	58.83	41.94	42.71	1.03
1430	38.55	45.84	46.63	1.03
1500	38.55	45.85	46.64	1.03
1530	38.55	45.87	46.61	1.03
1600	38.55	47.11	48.38	1.03
1630	38.57	60.77	64.28	1.03
1700	39.88	72.86	78.76	1.03
1730	70.83	87.74	93.53	1.03
1800	72.18	68.13	72.54	1.03
1830	71.54	58.35	60.17	1.03
1900	67.53	55.88	58.96	1.03
1930	61.74	55.18	56.03	1.03
2000	59.52	54.95	55.72	1.03
2030	38.55	39.78	40.64	1.03
2100	38.61	39.78	40.53	1.03
2130	34.80	22.78	23.54	1.03
2200	28.62	64.01	64.78	1.03
2230	28.62	64.01	64.76	1.03
2300	20.95	28.48	29.24	1.03
2330	9.38	14.00	14.00	0.00
2400	9.42	14.00	14.00	0.00

BUSINESSES FOR SALE

ECC accepts $1.25bn bid from Imetal

By Charles Pretzlik

English China Clays, the UK industrial minerals and speciality chemicals group, yesterday said it had accepted a £756m ($1.25bn) takeover bid from Imetal, a French rival.

Imetal is offering 250p a share in cash, an 11 per cent increase on its original offer of 225p, which ECC dismissed as too low.

Imetal had announced its intention to launch a hostile takeover bid but the two groups began formal negotiations two weeks ago. Imetal is now expected to offer a seat on its board to Dennis Rediker, ECC's chief executive.

Patrick Kron, chief executive of Imetal, said: "We would welcome Mr Rediker in our management team." Mr Rediker said: "From what I know today, I would like to join."

However, the deal met a lukewarm reception in the City. ECC's shares fell 1p to 241p. Nick Hatch, an analyst at Flemings, said: "I'm disappointed and I think there are one or two shareholders who felt they deserved more."

Imetal shares rose 15.4 per cent in Paris yesterday. "The French market obviously thinks they're getting a steal," Mr Hatch said.

ECC had said Imetal's original 225p offer "fails by a wide margin to reflect the value of the company's business and prospects." However, Mr Hatch said: "I don't call 25p closing a wide margin." He had valued the group at 270p a share.

Mr Rediker insisted Imetal's raised offer was "a fair value". It represented a 56 per cent increase on the 160p at which ECC's shares languished immediately before Imetal declared its interest. ECC's shares had fallen from over 400p in 1995, underperforming the FTSE All-Share index by 75 per cent over the period.

Mr Kron said: "We believe the enlarged group will become a low-cost producer in the industry, providing customers with high-quality service, based on a wider product offering, a diversified base of reserves and better levels of research and product."

He said he would consider the options for ECC's speciality chemicals division, Calgon, including its disposal.

The deal must receive regulatory clearance. It will be examined by the US Department of Justice, the European Commission and Canadian competition authorities.

Analysts believe it will be closely examined because it would reunite ECC's Georgia Kaolin with Imetal's Drybranch Kaolin. Both businesses were owned by the same group but ECC was prevented from buying them both by US regulators.

Imetal was advised by N M Rothschild and SG Hambros. ECC was advised by Schroders.

Inchcape sells Latin American bottling side

By John Willman in London and Mark Mulligan in Santiago

In a further step in the consolidation of the Coca-Cola bottler network, Embotelladora Arica of Chile is to acquire the Latin American bottling interests of Inchcape, the UK trading company.

Arica, which is quoted on the Santiago stock exchange, has agreed to pay $750m for the business which bottles Coke in central Chile and Peru. It already has the franchises for the northern tip of Chile and most of Bolivia and the deal will create the fourth largest bottling group in Latin America.

The acquisition will give Arica 96 per cent of Coca-*Cola drink sales in Bolivia,* 93 per cent in Peru and 38 per cent of Chile.

Andrés Vicuña, Arica's vice-president, said the company would finance the deal through a $340m rights issue which would double its capital base. Coca-Cola, which holds 17 per cent of the shares, has said it will subscribe and take up any shares left over.

The rest of the price will come from Arica's resources and debt financing, organised by JP Morgan, the company's adviser on the acquisition. "We're looking at various options," Mr Vicuña said, "with the idea of raising perhaps another $300m." The US investment bank has told Arica it is confident of success.

The sale by Inchcape, which was advised by Merrill Lynch, is a further step in its transformation from a diversified trading company to an international motor distribution business. The UK group sold its Russian bottling arm to Coca-Cola for £51m ($84m) in October. Last month its Asia-Pacific marketing side went to a private investor group for £93m.

Still to be sold are its Middle Eastern marketing wing, Inchcape shipping services and Inchcape NRG, an Asia-Pacific office automation business. Analysts expect these to raise another £150m.

The UK group expects to make a cash distribution to shareholders this year, with details to be finalised once Arica has completed the financing arrangements for its acquisition. Analysts expect the distribution to be as much as 110p a share.

Mixing together a concoction full of eastern promise

Lucy Smy examines how Blue Circle is following the industry trend to invest in the emerging markets of south-east Asia

The dusty towers and crenellations of Blue Circle's Chelson Meadow cement works in Plymouth failed to protect employees against market forces. The plant will close with the loss of 120 jobs at the end of May.

In common with other multinational cement companies Blue Circle is shutting down small, high-cost plants in western markets and investing in big plants, often by deep-water ports, in south-east Asia.

Last year Blue Circle announced it would close cement works at Ipswich and Plymouth, at a cost of *£39m ($64m).*

Meanwhile, it spent more than £700m on cement businesses in Malaysia, Singapore and the Philippines.

Blue Circle is also withdrawing from non-core businesses: for example, it is expected to announce soon the disposal of its Armitage Shanks bathrooms division, valued at sone £250m.

"If we want to grow our business we have to look outside the UK," says Keith Orrell-Jones, chief executive. "It is a mature market, and construction as a percentage of GDP growth is falling."

Blue Circle has focused its firepower on south-east Asia because it believes growth there will rebound strongly in a few years.

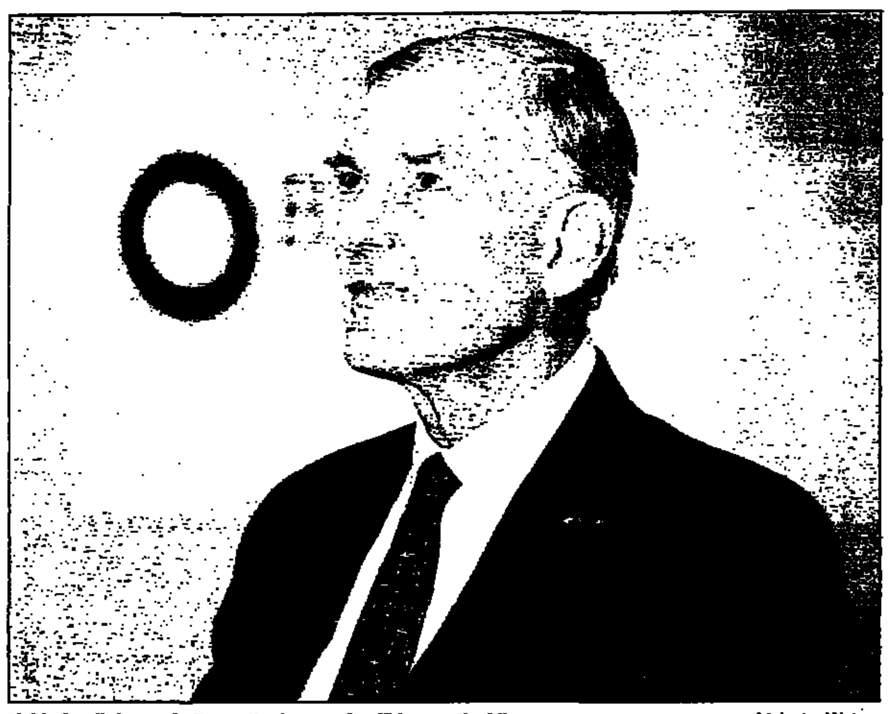
Other big multinational cement groups have been playing the same game. In the Philippines, for example, it is estimated that between them, Cemex of Mexico and Holderbank of Switzerland control 80 per cent of cement capacity along with Blue Circle.

Blue Circle partly welcomes the scramble for assets. It prefers to operate in markets where multinational rivals have a presence.

Foreign owners work to *similar profit targets. Their* influence restricts the scope for aggressive price cutting while lifting the product standards demanded by customers.

None of the big companies likes the word "cartel", but all agree that small domestic companies producing at a loss with government backing are bad for business.

Asia's economic problems have improved the availability of assets. As a result of informal government protectionism, and strong construction growth which discouraged owners from selling, targets were rare in south-east Asia during the 1980s and early 1990s. The need for industrial groups to raise cash to meet debts and faltering construction output has changed that.



Keith Orrell-Jones: believes the long wait will be worthwhile — Malcolm Watson

But fierce competition for assets means there has been no fire sale of south-east Asian cement works.

"People are paying a very high price in south-east Asia, and not just on a three year view. They are spending upwards of $120 (£73) a tonne of yearly capacity, when the market price of cement is $45 a tonne," said one London analyst.

Mr Orrell-Jones concedes that Blue Circle spent $120 a tonne on one acquisition in the Philippines, but believes *rivals may have spent $150-*$170 a tonne in other south-east Asian countries.

High purchase prices mean greater emphasis has to be placed on wringing efficiencies out of the acquired business. This is tough in a market where falling demand is increasing overcapacity.

Peter Suozzo, a cement analyst at Warburg Dillon Read in Bangkok, estimates that in Thailand there is a total capacity for cement production of 48.5m tonnes a year. He expects demand of only 22m tonnes.

Capacity utilisation is the key level that cement companies look at to try to estimate profit. Mr Suozzo believes Holderbank is willing to wait until 2003 for *demand to pick up, raising* capacity utilitisation in Thailand from about 54 to 85 per cent.

In the short term, many assets are being moth-balled. Kilns are being closed, furnaces turned off.

For Blue Circle, in common with the other international groups, the eastward expansion is likely to dilute earnings for at least two or three years. One building materials analyst has cut his full-year earnings per share forecast for Blue Circle by 2p to *27p as a result.*

While three years might be a long time for shareholders, it is a mere blink of an eye for cement companies. Most are looking at least 15 years ahead, when they believe their investments will begin to start paying off.

It is long wait, but one that Mr Orrell-Jones believes will be worthwhile. "There is no way that these countries will stay down. They will recover."

However, he added: "We have spent *as* much as I think we should in the region."

RESULTS

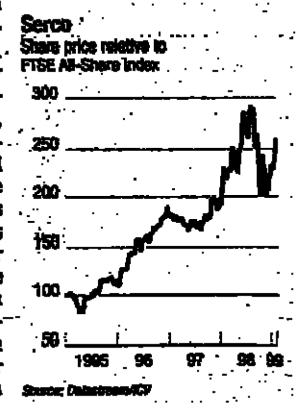
		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
BAA	9 mths to Dec 31	1,535	(1,294)	440	(415)	32	(21.2‡)	-	-	-	-	13.65
Beale	Yr to Oct 31	64.7	(62.4)	4.19	(4.33)	13.5†	(14.55)	3.25	Apr 6	3.25	4.9	4.75
Birchin Intl Φ	Yr to Sept 30	5.97	(0.938)	0.748♥	(2.03L♠)	0.11	(1.29L)	-	-	-	-	-
GRE	Yr to Dec 31 ★	4,061□	(3,637□)	392♥	(872)	35.5♦	(65.5)	nil	-	7.6	4.3	11.5
Murray Financial Φ	7 mths to Nov 30	-	(-)	0.124L	(-)	0.12L	(-)	-	-	-	-	-
Sanctuary	9 mths to Sept 30⁑	13.1	(18.4)	1.47	(1.32)	1.27	(1.04)	0.15	Apr 30	-	-	-
Uae	28 wks to Nov 7	50.6	(40.8)	1.68L	(0.038L♠)	6.23L	(0.14L)	0.4	Mar 5	1.85	-	6
Western Selection Φ	6 mths to Dec 31	-	(-)	0.143	(0.115♥)	0.33	(0.27)	nil	-	nil	-	0.25
Whittard of Chelsea	6 mths to Nov 30	16.9	(14.2)	0.284	(0.433♠)	1.1	(1.4)	1.15	Feb 24	1.15	-	3.7

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Edinburgh Small	6 mths to Dec 31 ★	112.12	(129.6)	0.543	(0.359)	0.78	(0.52)	0.75	Mar 31	nil	-	0.75
Henderson Smaller	6 mths to Nov 30	273.5	(265.1)	2.46	(3.2)	1.38	(1.79)	1.5	Mar 19	1.5	-	3.95
Mid Wynd Intl	6 mths to Dec 31	565.6	(599.2‡‡)	0.152	(0.224)	3.02	(4.45)	3.3	Apr 6	3.2	-	8
Murray Intl	Yr to Dec 31	520	(481.6)	18.4	(17.9)	15.5	(15.1)	5.45	May 24	4.55	15.5	14
Throgmorton	Yr to Nov 30	82.8	(95.1)	7.44	(6.88)	2.45	(2.27)	1.5	Mar 10	1.45	2.42	2.35

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ‡After windfall tax. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. ★Comparatives restated. □Total premiums. ♦On reduced capital. ⁑Comparatives pro forma for year to December 31. ‡‡At June 30.

COMMENT

Serco/Nomura



Serco's joint venture with Nomura International mirrors what it is set up to do. The vehicle will be owned by Nomura but Serco will manage its operation. Similarly, the purpose of the joint venture is for Nomura to fund the acquisition of large state assets, while Serco runs them. Serco, which has crunched 20 per cent a year growth in earnings per share *for the past decade, has* a good track record in improving the management of state assets, be they prisons or hospitals. It has even taken the odd equity stake in them. But with a market capitalisation of £850m ($1.39bn), the batch of state assets now on the auction block are beyond its scope. To get control of The National Air Traffic Control System or chunks of the London Underground would require £1bn and more. If Serco were to try and finance as well as manage NATS, it would turn itself into an air traffic company, and would lose the flexibility to do other deals. Its joint venture with Nomura International is therefore a sensible division of labour. Nomura drums up the finance, Serco manages the project. There is also an equity kicker for Serco, which stands to receive a share of the capital appreciation of the assets, without having to lay out any initial capital. Nomura does not usually need to sweeten its partners like this, but then having Serco on board means a better chance of clinching deals. The only concern is that the two have to wait for the government to press the green button.

English China Clays

Imetal calls it the "unilateral" approach; others would use the term "bear hug". Either way, this unfriendly if not actively hostile technique certainly did the trick with English China Clays. The latter rebuffed a bid from Imetal at 225p a share, arguing it failed by a "wide margin" to value the company. ECC's definition of "wide margin" now seems quite narrow, since hostilities ceased at 250p.

Did the management simply buckle at the prospect of a drawn-out scrap which could have ended with the loss of *their jobs? Probably not. At 250p, Imetal is giving away most* of the value created by merging the businesses to ECC shareholders. That is a decent enough burial for a company whose shares have underperformed the market by 65 per cent over five years.

Electra sets 3i tough conditions

By Katharine Campbell, Growing Business Correspondent

Electra Investment Trust has set tough conditions for a resumption of stalled talks on a takeover by 3i, insisting the venture capital group pays a premium to its net asset value.

EIT, a rival venture capitalist, has stipulated any revived talks must be opened by 3i indicating a price in terms of a premium to current net asset value. The latter would be as calculated by Electra, which has retained PwC to update the last published figure of 676p. The figure has been estimated by BT Alex.Brown at between 720p and 730p.

Talks reached stalemate last week when EIT turned down an indicative takeover offer by 3i, understood to be just under 700p, valuing the trust at some £1.2bn ($1.96bn).

Electra also wants 3i to sign a standstill agreement, which would effectively stop 3i from launching a hostile bid. People close to 3i added a hostile bid was still "unlikely".

3i is understood to be dismissive of the Electra valuation exercise because it has already come up with its own valuations on a company by company basis for over two thirds of Electra's unquoted portfolio.

3i also indicated it would not be put off buying Electra Investment Trust even if – as seems increasingly likely – it failed to secure the executives from Electra Fleming, the company which manages the trust.

While 3i's initial approach was motivated by the strategic fit of the two businesses as well as by financial considerations, it is believed to think it could manage the assets without Electra Fleming.

"There was a point during the talks when it became clear 3i could not be confident of the support of the [Electra Fleming] executives," a person close to 3i said. But he added the price would have to reflect that. "3i would not pay a strategic premium if there were no certainty of the management coming along."

Electra Fleming is a joint venture between EIT and Robert Fleming, with EIT's share last valued at £30.6m

Remuneration is understood to be the principal sticking point for Electra Fleming managers. The latter enjoy co-investment schemes, whereas 3i has always argued that such deal-by-deal arrangements skew the rewards towards executives and away from shareholders.

Guardian RE agrees £3.3bn offer from Axa

By Andrew Bolger, Insurance Correspondent

The board of Guardian Royal Exchange, one of the UK's oldest insurance groups, yesterday recommended a cash and shares offer from Axa, the French insurer, that valued the company at £3.3bn ($5.4bn).

Axa will make the proposed acquisition through Sun Life and Provincial Holdings, the UK life assurance company in which it holds a 72 per cent stake. Following the deal, Axa's stake will drop to 56 per cent.

Axa said the acquisition would enable Sun Life and Provincial to achieve critical mass in the consolidating UK and Irish insurance markets which should lead to significant efficiency improvements.

Lord Douro, chairman of Sun Life and Provincial, said: "We shall become the third largest life insurance company in the UK and the acquisition will also put us in the third largest position for general insurance in the UK, second position in health insurance and first position in general insurance in the Republic of Ireland."

The market gave the proposed acquisition a cool reception, marking Sun Life and Provincial's shares down 51p to 530p.

The buyer will offer 249p in cash and 0.243 new Sun Life and Provincial shares for each GRE share, worth 378p for each GRE share at last night's close. GRE shares closed 6½p lower at 361p.

The sharp fall in Sun Life and Provincial's share price could rekindle interest from Eureko, the alliance of seven European insurers that tabled a cash offer of 385p by Friday's deadline. However, the two sides still appear to be very far apart on conditions – particularly relating to businesses in the US. Another offer from Royal & Sun Alliance, GRE's rival composite, also seems unlikely.

Sun Life and Provincial will pay a net £1.9bn for the UK and Irish parts of GRE, selling the company's overseas businesses to Axa for £972m in cash.

Sun Life and Provincial has also agreed to sell GRE's North American businesses to Liberty Mutual, a US insurer, for $1.47bn in cash. Axa will also sell sell GRE's German business to Axa Colonia, the French group's German subsidiary, for DM 1.66bn ($964m) in cash.

Axa is being advised jointly by Goldman Sachs and DLJ International and Axa Colonia by ABN Amro. Sun Life and Provincial is being advised by Dresdner Kleinwort Benson, while GRE is being advised jointly by Morgan Stanley and SG Hambros. The brokers to the offer are Warburg Dillon Read.

EQUITIES

French bank takeover boosts bourses

EUROPEAN OVERVIEW

By Vincent Boland

European stock markets started the week on a bright note as confirmation of a big French banking takeover turned the spotlight back on industry consolidation.

Financial stocks led the broader markets higher as investors began picking out the next candidates for a bout of merger and acquisition activity.

The robust mood was further strengthened by a strong opening on Wall Street although that was melting away later. But the Brazilian Real strengthened a little against the US dollar, while speculation about the timing of an interest rate cut by the European Central Bank also drew buyers.

The FTSE Eurotop 300 index of leading stocks rose 17.43 to 1,232.33 and the FTSE Eurotop 100 index 46.68 to 2,833.26. The FTSE Ebloc 100 index of euro-zone stocks gained 11.28 to 1,035.12.

Dealers said trading volume across Europe was good, with cash-rich institutions not wanting to be left out of the current surge.

Bank shares rose 1.11 per cent after confirmation that Société Générale was tying up with Paribas. Though billed as a merger, the market took the view SocGen was taking over its smaller partner, and its shares fell €5 to €153 after rising strongly in recent weeks. Paribas rose €8.20 to €92.15 after the announcement.

Other French banks were also stronger on the view that they would be forced to act now that a powerful competitor had been created. BNP, which was jilted by Paribas in favour of SocGen and is seen as the most vulnerable of the independent operators, fell €2 to €78.

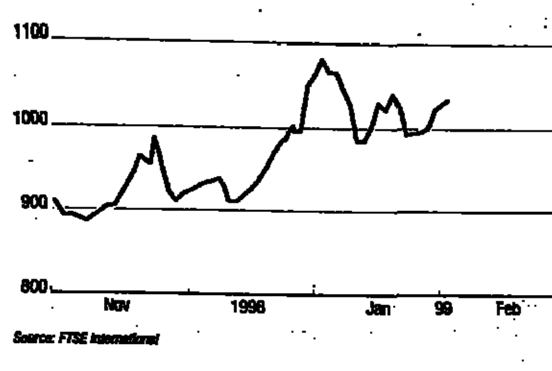
This is not the type of cross-border merger the market had been waiting for in the sector, however, despite the international dimensions of the two banks.

"To date, the international banks have not been major participants in this consolidation wave: cross-border mega-mergers, creating pan-European multi-domestic banking groups of a new form and scale, have not yet taken place," noted Salomon Smith Barney in its latest strategy report.

Insurers were also under the spotlight following Axa-UAP's successful bid for Guardian Royal Exchange. Axa fell €1.20 to €126.60, while Allianz rose €8.50 to €333.46.

FTSE Ebloc 100

Index



Source: FTSE International

■ THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100 - rate

[illegible]

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100 - rate

[illegible]

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100 - rate

[illegible]

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) €20 per full index point

[illegible]

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) €10 per index point

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OTHER INDICES

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FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Feb 01

National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total rtn (Euro) €
FTSE Eurotop 300	1232.33	+1.44	+17.43	2.21	0.52	1269.46
FTSE Eurotop 100	2833.26	+1.67	+46.68	2.26	1.78	1016.27
FTSE Ebloc 100	1035.12	+1.10	+11.28	2.00	0.39	1051.12
FTSE EuroMid	1183.10	+1.08	+12.64	2.82	1.12	1227.08
FTSE EuroMid Ebloc	1204.75	+0.26	+3.13	2.29	1.31	1231.57
FTSE EuroMid Ex UK	1240.14	+0.43	+5.33	2.17	0.90	1264.03
FTSE Eurotop 300 Regions						
Eurobloc	1294.16	+1.06	+13.59	1.95	0.69	1322.59
UK	1143.75	+2.00	+22.43	2.69	0.50	1201.43
Europe Ex-Eurobloc	1181.29	+1.84	+21.35	2.49	0.36	1223.92
Europe Ex-UK	1283.17	+1.15	+14.64	1.98	0.54	1307.75
FTSE Eurotop Industry Sectors						
RESOURCES	812.58	+2.38	+18.85	3.55	0.94	850.68
Mining	773.28	+1.18	+9.02	4.55	0.00	789.59
Oil & Gas	783.62	+2.42	+18.55	3.51	0.94	803.53
BASIC INDUSTRIES	1076.12	+1.55	+16.54	2.70	0.86	1099.94
Chemicals	843.54	+1.06	+8.85	2.66	0.65	859.12
Construction & Bld Matls	927.01	+3.22	+28.90	2.52	1.13	936.20
Forestry & Paper	872.51	+2.09	+17.89	3.55	0.00	912.40
GENERAL INDUSTRIALS	1145.53	+1.50	+16.98	2.42	0.41	1170.33
Aerospace & Defence	858.57	+0.52	+4.48	1.90	0.00	870.42
Diversified Industrials	1020.14	+0.34	+3.43	1.97	0.00	1043.48
Electronic & Elect Equip	1001.11	+0.72	+7.18	1.85	0.18	1006.75
Engineering & Machinery	1029.37	+4.35	+42.96	3.87	1.18	1044.86
CYCLICAL CONS GOODS	1328.33	+0.18	+2.38	2.48	0.00	1364.87
Automobiles	994.70	+0.20	+2.00	2.33	0.00	1003.93
Household Goods & Texts	1236.74	+0.05	+0.61	3.37	0.00	1247.30
NON-CYC CONS GOODS	1258.14	+1.30	+16.09	1.45	0.05	1290.75
Beverages	961.17	+3.48	+32.32	2.82	0.00	981.92
Food Producers & Procesrs	931.77	+1.20	+11.04	1.66	0.00	942.72
Health	893.90	+1.11	+9.83	6.58	0.00	907.27
Packaging	768.84	+1.77	+13.37	1.16	0.00	770.80
Personal Care & Hse Prods	1121.48	−1.63	−18.62	0.87	0.00	1131.05
Pharmaceuticals	1155.42	+1.47	+16.79	1.11	0.00	1161.69
Tobacco	1474.45	+0.33	+4.80	2.70	1.42	1503.98
CYCLICAL SERVICES	1304.85	+1.54	+19.85	2.36	0.75	1343.85
Distributors	695.71	+1.46	+10.02	4.24	0.00	703.53
General Retailers	1069.05	+0.92	+9.75	2.98	1.06	1092.21
Leisure Entertmt & Hotels	817.34	+1.42	+11.41	2.50	6.02	834.34
Media & Photography	1206.98	+1.40	+16.64	1.93	0.00	1219.86
Rests, Pubs & Breweries	878.20	+4.25	+35.80	3.19	2.64	906.77
Support Services	1099.29	+0.96	+10.48	1.35	0.00	1110.95
Transport	990.23	+2.54	+24.54	2.54	0.51	1009.02
NON-CYCLICAL SERVS	1377.86	+1.93	+26.06	1.45	0.44	1418.66
Food & Drug Retailers	1058.94	+1.13	+11.88	1.96	0.51	1075.63
Telecommunications Servs	1364.96	+2.10	+28.11	1.35	0.39	1385.71
UTILITIES	1523.26	+0.85	+12.98	2.92	3.35	1619.13
Electricity	1170.78	+0.86	+9.95	3.02	3.42	1211.91
Gas Distribution	1250.11	+1.22	+15.03	1.53	1.00	1377.54
Water	937.77	+0.07	+0.64	5.40	0.00	982.11
FINANCIALS	1298.14	+1.52	+19.41	2.55	0.23	1333.82
Banks	874.82	+1.11	+9.62	3.38	0.28	887.54
Insurance	1047.76	+1.75	+18.06	1.34	0.00	1060.41
Life Assurance	1230.57	+1.98	+23.95	1.60	0.00	1246.55
Investment Companies	1000.05	+0.88	+8.74	1.78	0.00	1024.04
Real Estate	651.61	+4.66	+29.00	3.74	0.00	668.55
Speciality & Other Fin	909.40	+4.76	+41.32	2.48	0.00	924.59
INFORMATION TECH	950.11	−0.10	−0.92	0.75	0.00	952.38
Information Tech Hardware	999.69	−0.26	−2.58	0.87	0.00	1002.07
Software & Computer Serv	837.56	+0.34	+2.87	0.45	0.00	839.56

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FTSE EUROTOP 300

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CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

Feb 1

[illegible]

Euro Locking Rates: Austrian Schilling 13.7603, Belgium/Luxembourg Franc 40.3399, Finnish Markka 5.94573, French Franc 6.55957, German Mark 1.95583, Irish Punt 0.787564, Italian Lira 1936.27, Netherlands Guilder 2.20371, Portuguese Escudo 200.482, Spanish Peseta 166.386. Bid/offer spreads in the Euro Spot table show only the last three decimal places. Bid, offer, mid spot rates and forward rates are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.

BONDS

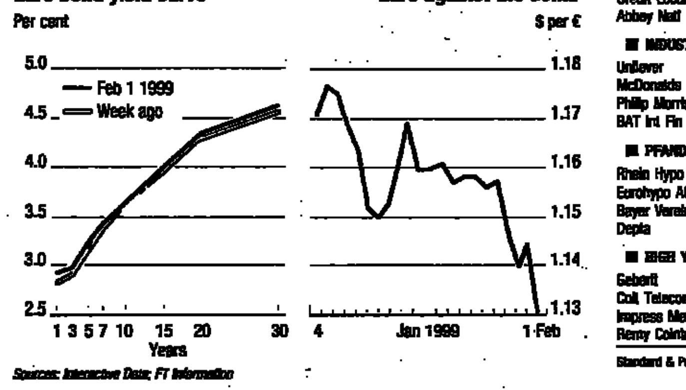
INTEREST RATE SWAPS

Feb 01	Euro-E Bid	Euro-E Ask	Euro-L Bid	Euro-L Ask	£ Stlg Bid	£ Stlg Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.03	3.06	3.03	3.06	5.51	5.54	5.11	5.14	0.51	0.54
2 year	3.05	3.09	3.05	3.09	5.22	5.25	5.15	5.18	0.72	0.75
3 year	3.17	3.21	3.17	3.21	5.13	5.17	5.19	5.22	1.00	1.03
4 year	3.32	3.36	3.32	3.36	5.09	5.13	5.24	5.27	1.27	1.30
5 year	3.46	3.50	3.46	3.50	5.05	5.09	5.27	5.30	1.51	1.54
6 year	3.60	3.64	3.60	3.64	5.02	5.06	5.32	5.35	1.73	1.76
7 year	3.74	3.78	3.74	3.78	5.02	5.06	5.36	5.39	1.90	1.93
8 year	3.86	3.90	3.86	3.90	5.02	5.06	5.40	5.43	2.07	2.10
9 year	3.97	4.01	3.97	4.01	5.02	5.06	5.44	5.47	2.20	2.23
10 year	4.06	4.10	4.06	4.10	5.02	5.06	5.47	5.50	2.30	2.33
12 year	4.22	4.26	4.22	4.26	5.03	5.08	5.55	5.58	2.51	2.55
15 year	4.41	4.45	4.41	4.45	5.04	5.09	5.67	5.70	2.77	2.81
20 year	4.61	4.65	4.61	4.65	5.04	5.11	5.78	5.81	2.97	3.01
25 year	4.72	4.76	4.72	4.76	5.05	5.12	5.79	5.82	3.06	3.10
30 year	4.79	4.83	4.79	4.83	5.06	5.13	5.80	5.83	3.11	3.16

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months Libor, £ and Yen quoted on a semi-annual actual/365 basis against 6 months Libor, Euro quoted on annual bond 30/360 basis against 6 month Euribor and Libor with the exception of the 1 year rate which is quoted against 3 months Euribor and Libor. Source: Intercapital Brokers Ltd.

Euro bond yield curve — Per cent

Euro against the dollar — $ per €



Sources: Interactive Data; FT Information

EURO-ZONE BONDS

Feb 01	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ SOVEREIGNS								
UK	01/01	4.250	AAA	102.278	3.05	+0.07	−0.30	+0.14
Denmark	01/02	4.750	AA+	104.418	3.14	+0.07	−0.29	+0.16
Sweden	02/01	5.000	AA+	103.705	3.07	+0.07	−0.30	+0.16
Greece	11/08	6.750	BBB	116.264	4.25	+0.04	−0.29	+0.81
■ SUPRANATIONALS								
ADB	10/07	5.500	AAA	109.797	4.14	+0.04	−0.15	+0.62
EIB	04/08	5.000	AAA	108.645	3.86	+0.03	−0.15	+0.26
Eurofima	12/09	5.625	AAA	111.885	4.28	+0.03	−0.18	+0.59
World Bank	04/05	7.125	AAA	118.818	3.67	+0.05	−0.13	+0.32
■ UTILITIES								
EDF	10/03	3.750	n/a	101.848	3.36	+0.05	−0.23	+0.26
TEPCO	02/03	4.750	AA	103.977	3.68	+0.06	−0.19	+0.58
Quebec Hydro	03/08	5.375	A+	107.114	4.41	+0.04	−0.22	+0.81
Norsk Hydro	10/99	7.250	A	102.380	3.53	+0.06	−0.09	+0.58
■ FINANCIALS								
Bad Wurtt	02/10	5.375	AAA	109.969	4.22	+0.05	−0.14	+0.48
OKB	09/07	5.750	AAA	112.887	3.95	+0.05	−0.16	+0.43
Credit Local	04/08	5.250	AA+	108.154	4.16	+0.03	−0.13	+0.56
Abbey Natl	01/09	5.000	AA−	104.045	4.49	+0.04	−0.25	+0.82
■ INDUSTRIALS								
Unilever	10/01	5.125	AAA	104.558	3.32	+0.08	−0.19	+0.41
McDonalds	03/08	5.125	AA	110.253	3.78	+0.04	−0.22	+0.18
Philip Morris	06/08	5.625	A	107.089	4.67	+0.04	−0.26	+1.07
BAT Intl Fin	07/06	5.375	A−	103.416	4.82	+0.04	−0.35	+1.38
■ PFANDBRIEFE								
Rhein Hypo	12/01	5.500	n/a	106.189	3.17	+0.02	−0.32	+0.26
Eurohypo AG	01/04	5.000	n/a	107.171	3.40	+0.01	−0.31	+0.17
Bayer Vereins	01/06	6.000	n/a	114.240	3.64	+0.02	−0.33	+0.20
Depfa	07/08	4.750	n/a	106.281	3.94	+0.03	−0.31	+0.34
■ HIGH YIELD								
Gebert	04/07	10.125	B+	109.480	8.11	+0.08	−0.30	+4.59
Colt Telecom	11/07	8.875	n/a	102.000	8.54	+0.12	−0.14	+5.02
Impress Metal	05/07	9.875	B	107.264	8.62	+0.85	+0.86	+5.10
Remy Cointreau	07/05	10.000	B+	94.000	11.33	−0.23	−0.90	+7.98

Standard & Poor's ratings. Source: Interactive Data/FT Information.

INTERNATIONAL CAPITAL MARKETS

OTC trading move under fire in Japan

By Julie Hess in Tokyo

The Japanese Securities Dealers Association has introduced a controversial market-making system for a small number of OTC stocks. While the JSDA hopes to improve liquidity in the OTC market, critics said the move was bad for clients and brokers and a step backwards for market liberalisation.

Although other markets are shifting from market-making to electronic order systems, the JSDA reasoned that market-making would help activate the OTC market and ensure stabilised liquidity in stock trading.

Atsuko Toda, press officer at Nomura, the leading OTC market-maker, said: "As market-makers will take the risk of holding stocks themselves and will give prices on request, liquidity will increase. This will be advantageous for clients."

However, opinions differ on the relationship between trading systems and liquidity. A fund manager at a European bank said: "The problem of the lack in liquidity has more to do with a lack of interest in Japanese small caps than the choice of trading system."

Matthew Lutter, at Bridge Trading, agreed: "Liquidity is often poor, but this is a symptom of the investor's appetite for more risky smaller company shares, not the system of trading them." Mr Lutter also expected market volatility to increase with the new system.

A trader from a foreign institution felt the new system was probably being introduced more to benefit the market-maker than for a potential increase in trading volume. The free setting of spreads will allow market-makers to increase profits.

"Market-making allows far more opportunities for wider spreads and thus poorer end-prices, particularly for small investors," Mr Lutter said.

Ms Toda from Nomura disagreed: "Spreads depend on supply and demand; they should reflect the market situation. Market-makers benefit insofar as more trades enhance business."

Despite the obvious advantages, most western security companies are reluctant to become market-makers. Only Goldman Sachs and Merrill Lynch have joined the new system so far.

Mr Lutter said: "Market-making is time-consuming and far more risky."

Noriko Takahashi, small-cap analyst at Warburg Dillon Read, added: "Because of the inherent risk, WDR is not adopting the new system for the time being. The main market-makers are Japanese brokers, not western securities houses."

Also, Japanese brokers, which often lead-manage IPOs, have more information about companies and shareholder structures.

The new risk distribution has consequences for the selection of the stocks covered by the market makers.

Teruhi Fukano, analyst at ING Barings, explained: "As market-makers bear the risk of holding the stocks beforehand, brokers are very picky and selective about which stocks are included in the system. Therefore, the companies affected now are all considered to have strong growth potential."

Axa raises €1.32bn for bid

NEW ISSUES

By Khozem Merchant

Axa, the French insurer, launched a €1.32bn convertible bond to help finance its takeover yesterday of the British composite insurer Guardian Royal Exchange for about £3.3bn.

Axa, and its holding company Finaxa, are regular issuers of convertible bonds, which are enjoying a revival in France after recent legislative changes.

The Axa bonds are of 15-year maturity, three times the normal duration of recent convertibles, and are convertible to Axa shares at a premium of 29 per cent.

Financial borrowers such as Axa are attracted to subordinated convertible bonds because of beneficial treatment by credit rating agencies, which regard them as closer to equity than debt.

Bankers said the issue was 15 times oversubscribed and was priced to yield 50 basis points over the French OAT.

Vauban Mobilisations Garanties, a French finance vehicle, launched a euro-denominated mortgage-backed security that bankers said was closely modelled on German Pfandbriefe.

The bond is secured by French residential mortgages but unlike VMG's previous french franc-denominated issues, yesterday's bond was marketed outside France. It included for the first time a non-French bank, Dresdner Kleinwort Benson, as co-lead arranger, along with CDC Marches.

French and Spanish banks have led the way in trying to emulate German Pfandbriefe. Their aim has been to make them a more pan-European asset class.

French and Spanish efforts are hindered by the lack of legislation at home and recognition from German regulatory authorities.

VMG's seven-year €380m bond was priced to yield 45 basis points over French OATs. Buyers were mainly from Germany, the Benelux countries, Italy, Spain and France. VMG is owned by the Comptoir des Entrepreneurs, which in turn is owned by Allianz's insurance subsidiary AGF.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Lehman Brothers Hldgs Inc	800	6.625#	99.614R	Feb 2005	0.625R	+200(Feb05)	Lehman Brothers
Discover CMT 99-1, A(a)‡	500	5.30#	99.29	Feb 2002	0.225	+65(6%Feb02)	Morgan Stanley DW
World Bank(b)	250	5.00	99.433R	Nov 2005	0.30R	-	Barclays Capital
Westfaelische Hypo	150	5.04	100.00	Feb 2000	0.05		Deusche Bank
Swedish Export Credit	100	5.25	100.372R	Mar 2004	0.275R	+54(4¾Nov03)	KBC Bank
EUROS(e)							
Axa(c)§	1.32bn	2.50(s)	100.00	Jan 2014	2.50	-	DLJ/Goldman/Paribas
Vauban MG(d)	380	4.00(l)	99.93R	Oct 2006	0.30R	+45(6%Oct06)	CDC/Dresdner KB
Bca Popolare di Bergamo(f)‡	200	(f1)	100.151R	Dec 2003	0.175R	-	Warburg Dillon Read
HypoVereinsbank(g)	100	4.625	100.35R	Feb 2009	0.30R	+94(3¾Jan09)	BGL/Generale/HypoVB
YEN							
Sumitomo Metal Inds★	10bn	3.00#	90.00	Feb 2019	0.55	-	Nomura International
SWISS FRANCS							
Pacific Life Funding	300	3.00	101.95	Mar 2007	2.625	-	Warburg Dillon Read
AUSTRALIAN DOLLARS							
NSW Treasury Corp★	125	4.55#(l)	99.96	Feb 2002	1.00	-	Nomura International
NEW ZEALAND DOLLARS							
Inter-American Dev Bank	500	5.75#(s)	99.09R	Apr 2004	0.25R	+72(8%Apr04)	TD Securities
LB Schleswig-Holstein	100	5.50	100.45	Mar 2002	1.50	-	RBC DS Global Markets
GREEK DRACHMA							
HypoVereins Finance	20bn	5.50	98.875R	Feb 2004	0.25R		HypoVereinsbank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. §Convertible. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Card Master Trust. Legal maturity: Aug 04. Av life: 3.02 yrs. a1) Class B: $28m, 5.55%, 99.28, 3.1 yrs. b) Fungible with $1bn. Plus 101 days accrued. c) Each €185 bond convertible into one Axa ord share. Redemption price: 230.88%. Greenshoe: 15%. Callable from 1/1/05 subject to 125% hurdle at accreted value. d) Secured on French residential mortgages. Spread re French govt bonds. e) Spread relates to German govt bonds unless stated. f) Fungible with €300m, plus 62 days accrued. f1) 3-mth Euribor +20bp. g) €300m launched in January was increased to €400m. l) Long 1st coupon. s) Short 1st coupon.

Treasuries tumble on economic data

BENCHMARK BONDS

By John Labate in New York and Arkady Ostrovsky in London

Fresh signs of strength in the US economy and the reluctance of the European Central Bank to cut euro-zone interest rates sent prices tumbling yesterday.

US Treasuries fell on stronger than expected data from the National Association of Purchasing Management, whose index jumped to 49.5 in January from a revised 45.1 in December, indicating an expanding economy. This followed stronger than expected gross domestic product growth in the fourth quarter of 1998.

By early afternoon the 30-year US Treasury was down 1⅜ to 101, sending the yield up to 5.183 per cent. Among shorter-term issues 10-year notes fell ⅜ to 99⅜, yielding 4.753 per cent and two-year notes lost ⅛ to 99⅜, yielding 4.649 per cent. The Federal Open Market Committee meets today to decide interest rate policy.

European markets were further weakened by comments from Wim Duisenberg, head of the European Central Bank, at the weekend. He said interest rates in Europe were at historic lows and an additional cut, which the markets have largely priced in, would not help stimulate growth.

The 10-year German bund future dropped 0.54 to close at 117.03. UK gilts also fell, although less than 26,000 futures contracts traded on Liffe. The 10-year March gilt future fell 0.20 to 120.06.

Deutsche Bank said it no longer thought the Bank of England would cut UK interest rates by half a percentage point, although it continued to forecast that the monetary policy committee would reduce rates by 25 basis points this week.

The yield on 10-year Japanese government bonds rose above 2 per cent on concern about the government's ability to revive the economy.

NEWS DIGEST

BONDS FOR NON-PERFORMING LOANS

Malaysian agency issues first tranche of new series

The agency Malaysia set up to buy non-performing loans from the banking system issued M$1.1054bn worth of five-year bonds on Friday in the first tranche of the second series issued.

Danaharta, the country's asset management agency, issued the bonds to unnamed financial institutions in consideration for non-performing loans. The bonds have a yield of 6.654 per cent and were priced at M$71.301 for every M$100 in face value. The securities will mature on March 31 2004.

In the first series, Danaharta issued M$2.6014bn nominal value of five-year bonds, which will mature on December 31, 2003. The agency plans to issue up to M$15bn in zero-coupon, redeemable, government-guaranteed bonds to help relieve Malaysia's banks of bad loans. Economists believe that bad loans will eventually account for about 30 per cent of all loans if calculated under international standards, which deem that a loan is non-performing after three months.

Malaysia has changed its formula, however, and determines that a loan is non-performing if it is unpaid for six months. The move is intended to encourage banks to lend in the hope of reviving the economy.

Economists are concerned, however, that the authorities are under-estimating the depth of the problem in a banking system that went into last year's Asian crisis with domestic debt standing at 170 per cent of gross domestic product. They also fear that pushing banks to lend against their will, especially amid the recession, could weaken the system further. **Sheila McNulty, Kuala Lumpur**

CREDIT RATINGS

S&P strengthens Telekurs link

Standard & Poor's, the credit rating agency, yesterday announced an alliance with Telekurs Financial, a Swiss provider of financial data, that will see both companies share data, sell and market each other's services and develop new products.

S&P and Telekurs already co-operate in the US market, where they have a cross-marketing relationship for the International Securities Identification Directory.

The two companies said the new alliance would be able to provide original information on nearly 2.7m financial instruments.

Standard & Poor's is to sell pricing and corporate action data in North and South America for Telekurs Financial, while the Zurich-based company will sell S&P's dividend record and global settlement service products in Europe. **Vincent Boland**

Comments and press releases about international companies and capital markets coverage can be sent by e-mail to international.companies@ft.com

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Feb 1	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	107.4198	4.69	+0.03	-0.01	+0.05	-0.52
	08/08	8.750	127.8008	5.04	+0.02	+0.11	+0.02	-0.83
Austria	07/00	5.875	103.9400	3.03	+0.08	+0.08	-0.23	-1.08
	01/08	5.000	108.4300	3.87	+0.06	+0.07	-0.16	-1.28
Belgium	01/00	4.000	100.9700	2.95	+0.03	+0.06	-0.15	-1.06
	03/08	5.750	114.0300	3.89	+0.04	+0.02	-0.16	-1.28
Canada	12/00	5.000	100.3700	4.78	+0.05	+0.02	+0.07	-0.23
	06/08	6.000	107.9000	4.83	+0.04	+0.01	+0.04	-0.44
Denmark	11/00	9.000	109.4100	3.41	-	+0.01	-0.41	-0.78
	11/07	7.000	121.7900	4.00	+0.01	+0.03	-0.22	-1.42
Finland	08/00	4.000	101.3870	2.94	+0.01	+0.07	-0.22	-0.70
	04/08	6.000	116.4120	3.85	-	+0.03	-0.16	-1.25
France	07/00	4.000	101.4300	2.95	+0.04	+0.08	-0.22	-1.04
	10/05	7.750	125.4900	3.43	+0.05	+0.05	-0.14	-1.33
	10/08	8.500	138.1500	3.74	+0.05	+0.05	-0.14	-1.33
	04/29	5.500	113.9300	4.63	+0.04	+0.05	-0.13	-1.03
Germany	06/00	4.000	101.3300	2.97	+0.08	+0.10	-0.12	-0.88
	10/05	6.500	117.4400	3.52	+0.05	+0.06	-0.19	-1.31
	07/08	4.750	108.0700	3.72	+0.06	+0.07	-0.15	-1.35
	01/28	5.625	115.3900	4.65	+0.05	+0.08	-0.22	-1.02
Greece	03/00	9.800	99.7987	9.95	-	-0.01	-0.30	-5.68
	03/08	8.600	117.0591	6.13	+0.01	-0.13	-0.80	-5.01
Ireland	10/01	6.500	108.7400	3.08	+0.05	+0.06	-0.18	-1.60
	08/08	6.000	116.5700	3.88	+0.03	+0.04	-0.14	-1.44
Italy	04/01	4.500	103.1200	3.00	+0.03	+0.03	-0.27	-1.82
	07/03	4.500	104.9100	3.30	+0.04	+0.04	-0.14	-1.88
	05/08	5.000	108.6100	3.88	+0.03	+0.01	-0.10	-1.53
	11/27	6.500	126.2000	4.81	+0.03	+0.03	-0.08	-1.11
Japan	12/00	6.900	111.5480	0.65	-	+0.09	-0.16	-0.14
	12/03	4.100	112.4640	1.44	+0.03	+0.16	-0.08	+0.02
	06/08	1.800	98.1580	2.02	+0.06	+0.24	+0.02	+0.19
	03/18	2.700	98.3140	2.81	+0.04	+0.21	+0.04	+0.18
Netherlands	05/00	9.000	107.4000	2.95	+0.04	+0.06	-0.25	-1.00
	07/08	5.250	111.3200	3.80	+0.05	+0.05	-0.15	-1.22
New Zealand	02/01	8.000	105.6067	4.91	-0.05	-0.06	-0.25	-2.47
	07/09	7.000	112.3891	5.43	-0.04	-	-0.04	-1.31
Norway	05/01	7.000	104.8200	4.73	-0.03	-0.57	-1.03	+0.46
	01/07	0.750	113.8500	4.65	+0.01	-0.26	-0.69	-0.63
Portugal	03/00	5.375	102.0100	2.97	+0.02	-0.01	-0.18	-1.37
	06/08	5.375	111.3300	3.91	+0.04	+0.04	-0.15	-1.42
Spain	04/00	6.750	104.3500	2.94	+0.02	+0.05	-0.14	-1.39
	01/08	6.000	115.8700	3.87	+0.04	+0.04	-0.11	-1.43
Sweden	05/00	10.250	108.3297	3.27	+0.01	+0.03	-0.28	-1.47
	05/08	6.500	119.2950	3.98	-	+0.05	-0.19	-1.65
Switzerland	06/00	4.500	104.1000	1.38	-0.06	+0.02	-0.09	-0.20
	01/08	4.250	115.9000	2.26	+0.01	+0.01	-0.10	-0.85
UK	11/01	7.000	106.2200	4.57	+0.01	+0.01	-0.13	-1.95
	12/03	6.500	110.0200	4.19	+0.01	-0.04	-0.14	-1.95
	10/03	9.000	138.0500	4.18	+0.02	-0.04	-0.18	-1.88
	12/28	6.000	130.3600	4.20	+0.04	-0.04	-0.06	-1.83
US	09/00	4.500	99.6670	4.71	+0.03	+0.08	+0.10	-0.88
	08/03	5.250	102.2557	4.69	+0.08	+0.07	+0.05	-0.82
	05/08	5.625	105.6739	4.83	+0.08	+0.08	+0.10	-0.69
	08/28	5.500	103.7292	5.25	+0.07	+0.04	+0.07	-0.60

London closing. * New York mid-day. Source: Interactive Data/FT Information. Yields: Local market standard Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Feb 1	Bid Yield	Spread vs Euros	Spread vs T-Bonds
Australia	5.05	+1.38	+0.32
Austria	3.98	+0.31	-0.75
Belgium	3.99	+0.32	-0.74
Canada	4.93	+1.26	+0.20
Denmark	4.03	+0.36	-0.70
Finland	3.86	+0.19	-0.87
France	3.75	+0.08	-0.98
Germany	3.67	-	-1.06
Greece	6.06	+2.39	+1.33
Ireland	3.92	+0.25	-0.81
Italy	3.89	+0.22	-0.84
Japan	2.04	-1.63	-2.69
Netherlands	3.83	+0.16	-0.90
New Zealand	5.44	+1.77	+0.71
Norway	4.69	+1.02	-0.04
Portugal	3.97	+0.30	-0.76
Spain	3.97	+0.30	-0.76
Sweden	3.99	+0.32	-0.74
Switzerland	2.37	-1.30	-2.36
UK	4.18	+0.51	-0.55
US	4.73	+1.06	-

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Feb 1	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	93.5687	9.46	+0.14	+0.58	+4.83
Poland	07/04	7.125	BBB-	105.4854	5.90	-0.04	-0.19	+1.28
Russia	06/07	10.000	CCC-	31.1000	37.08	-0.25	-9.61	+32.39
LATIN AMERICA								
Argentina	09/27	9.750	BB	83.4215	11.77	-0.12	+0.97	+6.65
Brazil	05/27	10.125	B+	63.4854	16.05	-1.03	+0.85	+10.93
Mexico	05/26	11.500	BB	106.8965	10.71	-0.16	-0.18	+5.61
ASIA								
China	07/06	7.750	BBB+	102.7565	7.24	+0.04	+0.08	+2.58
Philippines	10/16	8.750	BB+	93.8650	9.47	-0.20	+0.03	+4.59
Thailand	04/07	7.750	BBB-	100.7521	7.62	-0.22	-0.68	+2.93
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	104.4338	5.87	-0.31	-1.05	+1.27
South Africa	10/06	8.375	BB+	96.0980	9.09	-1.07	-0.02	+4.43
Turkey	09/07	10.000	B	89.8965	11.91	+0.23	-0.73	+7.22
BRADY BONDS								
Argentina	03/23	5.750	BB	69.8750	9.10	-0.22	+0.28	+4.07
Brazil	04/14	5.000	B+	56.1250	14.80	-0.96	+0.81	+9.96
Mexico	12/19	6.250	BB	76.7500	8.68	-0.18	+0.10	+3.74
Venezuela	03/20	6.750	B+	65.2500	11.02	-0.08	+0.61	+6.05

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	113.26	112.94	-0.30	113.26	112.89	27,283	91,440

LONG TERM EURO BOND OPTIONS (MATIF)

Strike Price	CALLS Feb	CALLS Mar	CALLS -	PUTS Feb	PUTS Mar	PUTS -
110	3.40	3.44	-	-	0.05	-
111	2.41	2.49	-	0.01	0.10	-
112	1.41	1.63	-	0.01	0.24	-
113	0.48	0.92	-	0.08	0.52	-

Est. vol. total, Calls 2,708 Puts 1,650 Previous day's open int., Calls 14,131 Puts 18,185.

Germany

NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	117.66	117.03	-0.55	117.74	116.98	411,485	378,625

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	109.65	109.41	-0.22	109.69	109.35	145,999	184,816

NOTIONAL LFB SWAP FUTURES (LIFFE)* 5yr 4.0% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	102.32	-0.13	-	-	0	1080

NOTIONAL LFB SWAP FUTURES (LIFFE)* 10yr 4.5% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	103.51	-0.15	-	-	0	920

Also traded on APT. All Open interest figs. are for previous day.

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	115.43	115.10	-0.29	115.49	114.83	9267	44726

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	118.30	117.89	-0.34	118.34	117.78	13,503	23,876
Jun	-	117.52	-	-	-	-	1

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	109.78	+0.14	-	-	0	63
Jun	-	109.78	+0.14	-	-	0	0

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	120.10	120.06	-0.20	120.47	119.70	31677	106275
Jun	121.29	120.98	-0.13	121.29	120.94	150	150

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	CALLS Mar	CALLS Apr	CALLS May	PUTS Mar	PUTS Apr	PUTS May
11950	0.95	1.97	2.20	0.39	0.49	0.72
12000	0.71	1.64	1.88	0.65	0.66	0.90
12050	0.44	1.33	1.59	0.88	0.85	1.11
12100	0.31	1.07	1.33	1.25	1.09	1.35
12150	0.22	0.84	1.10	1.66	1.36	1.62
12200	0.14	0.65	0.90	2.08	1.67	1.92

Est. vol. total, Calls 28 Puts 350. Previous day's open int., Calls 8145 Puts 6744

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	128-01	127-20	-0-12	128-02	127-17	356,177	503,933
Jun	127-11	127-08	-0-12	127-11	127-04	19,480	111,244
Sep	-	127-04	-	-	-	821	7,324

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	128.70	128.74	-	128.98	128.70	1625	n/a
Jun	127.91	127.80	-	127.91	127.82	205	n/a

Euro

€ BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	113.20	112.91	-0.64	113.20	113.00	20	204

US CORPORATE BONDS

Jan 29	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	106.2052	5.23	-0.01	-0.03	+5.23
NY Tel	08/03	7.00	A+	103.1408	6.63	-0.05	-0.17	+2.08
CWE	05/08	8.00	BBB	115.6162	5.79	-0.02	-0.05	+1.13
FINANCIALS								
GECC	05/07	8.75	AAA	121.2441	5.52	-0.01	-	+0.86
Banc One	08/02	7.25	A	105.0771	5.62	-0.02	-	+5.62
CNA Fin	01/18	6.95	A-	98.1609	7.12	+0.10	-0.06	+2.03
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.0329	5.91	+0.05	-0.04	+1.60
Wal Mart	05/02	6.75	AA	105.3898	4.94	-	-0.05	+4.94
Dayton Hud	06/21	9.70	A-	137.9963	6.46	-0.02	-0.17	+1.37
AGENCIES								
FHLMC	04/07	7.14	N/A	112.3524	5.26	-0.02	-	+0.60
SLMA	03/00	7.50	N/A	102.5689	5.06	-	+0.09	+0.75
FNMA	02/18	8.95	N/A	138.4084	5.63	-0.02	-0.08	+0.54
FFCB	06/06	8.95	N/A	122.4089	5.22	-0.02	-	+0.56
HIGH YIELD								
Stone Cont	02/01	9.88	B	101.5000	0.00	-	-	-
AK Stl	12/01	9.13	BB-	107.2500	0.00	-	-	-
Pacalta	06/04	10.75	B-	76.5000	0.00	-	-	-

NY latest. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest

Prime rate	7¾
Broker loan rate	6½
Fed.funds	4⅞
Fed.funds at intervention	-

Treasury Bills and Bond Yields

One month	-	Two year	4.63
Two month	-	Three year	4.62
Three month	4.46	Five year	4.59
Six month	4.49	10-year	4.69
One year	4.54	30-year	5.12

INTERNATIONAL BONDS

Feb 1	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
$								
EIB	04/07	7.250	AAA	111.9213	5.41	+0.03	+0.12	+0.72
ABN Amro	08/07	7.125	AA-	103.6936	6.53	+0.02	+0.30	+1.84
Quebec	01/07	7.000	A+	105.7531	6.08	+0.03	+0.31	+1.39
Citicorp FRN	02/04	5.312	AA-	94.0002	6.72	+0.03	+0.27	+2.10
C$								
Bayer L-Bk	08/04	9.500	AAA	119.3380	5.35	+0.01	+0.07	+0.19
Toronto (M of)	05/04	8.500	AA+	114.5354	5.28	+0.01	-0.08	+0.12
Bell Canada	07/99	10.625	A+	102.2187	5.24	+0.02	+0.11	+1.27
Deutsche B FRN*	09/02	5.875	AA+	101.3681	5.45	+0.01	+0.09	+0.36
£								
EIB	12/07	7.625	AAA	119.7000	4.83	-0.05	-0.32	+0.55
Dresdner Bk	12/07	7.750	AA-	113.1691	5.80	+0.01	-0.24	+1.52
British Gas	03/00	7.625	A+	101.9900	5.77	-	-0.30	+0.66
Abbey Nat FRN	02/02	7.138	AA	100.0138	4.28	-	-0.43	-0.23
SFR								
EIB	01/08	3.750	AAA	103.8530	3.25	+0.01	-0.12	+0.98
Brit Columbia	02/02	3.250	AA	103.9358	1.91	-0.01	-0.07	+0.30
Hydro-Quebec	05/01	6.750	n/a	109.2775	2.53	-0.03	-0.08	+1.06
Gen Elect.	09/01	1.711	n/a	99.6654	1.49	-0.02	-0.07	+0.02
YEN								
IBRD (World Bk)	03/02	5.250	AAA	113.5580	0.84	+0.05	-0.07	-0.16
Spain (Kingdom)	03/02	5.750	AA	114.8944	0.91	+0.04	-0.07	-0.09
Cred Foncier	08/02	4.750	A	111.2177	1.45	+0.04	-0.11	+0.45
Italy (Rep of)	07/98	0.516	AA	100.0858	0.35	+0.01	-0.10	+0.03
A$								
IBRD (World Bk)	02/08	6.000	AAA	103.9404	5.44	+0.03	+0.05	+0.40
Nw Sth Wales Tr	05/06	6.500	n/a	106.1601	5.46	+0.02	-0.01	+0.51
S. Aus Gov Fin	08/03	7.750	AA	108.3714	5.54	+0.04	+0.06	+0.73
GMAC Aust	05/01	9.000	n/a	107.3520	5.49	+0.04	+0.04	+0.76

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Government Securities

UK Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

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Euro lower on rate expectations

MARKETS REPORT

By Florian Gimbel

The euro continued to lose ground against the dollar, largely owing to the market's anticipation of a cut in euro-zone interest rates.

The increasingly drab economic outlook across the 11-nation euro-zone was confirmed yesterday by purchasing managers surveys in both Germany and Italy, showing further declines in manufacturing.

The negative news from Europe stood in sharp contrast to a big improvement in US manufacturing activity.

The National Association of Purchasing Management index climbed from 45.3 in December to 49.5 in January.

The euro fell half a cent against the dollar to end London trading hours at $1.131.

With the dollar's backing, sterling did not lose its shine in the face of a gloomy report on Britain's manufacturing sector.

Running against market expectations for an interest rate cut by the Bank of England on Thursday, the pound ended only slightly lower against the euro, finishing at £0.689 in London trading, from £0.691 previously.

In Europe's largest economy, Germany, the Purchasing Managers Index edged up on a seasonally adjusted basis from 45.7 in December to 46.7 in January. But it remained well below the 50 point level, implying a contraction in activity.

"The slight uptick does not reflect the full extent to which the German exports will be affected by the crisis in Brazil," said Ravi Bulchandani, chief currency strategist at Morgan Stanley Dean Witter in London.

The investment back cut its interest and exchange rate forecasts for the euro-zone yesterday, expecting the euro to decline as low as $1.05 in the near term. It also sees the need for a 75 basis points cut in the euro-zone interest rate from 3 per cent.

"With money supply pretty well on target, the fear of deflation is the most compelling argument for lowering rates," Mr Bulchandani added.

Speaking in Chicago, Wim Duisenberg, president of the ECB, said it was ready to act against either inflation or deflation, but that main policy indicators were developing as hoped.

■ Analysts point to a fundamental change in expectations weighing on the euro.

"Data coming out of the core euro-zone states is increasingly soggy, at a time of an expected upswing. Before the launch of the euro, markets were bullish on growth in Europe, with the US economy expected to slow down. With last week's data, particularly the US GDP figures, the market's perception has been turned on its head," said David Bloom, currency strategist at HSBC in London.

He expects the European Central Bank to cut interest rates in the first quarter of this year. But he added that expectations were too much concentrated on signals from Germany.

"Under the old regime, Europe did whatever the Bundesbank decided to do, but now Germany's actual influence has diminished. It went from 100 per cent decision making power to a voting power [within the ECB] that is well below its GDP-weighted position in euroland. Before the single currency, Europe had to become more like Germany. Now Germany has to become more European-like," said Mr Bloom.

■ Relative calm returned to the Brazilian market, following Friday's session, which was dominated by unfounded rumours of a run on banks by the public. The Real recovered from the all-time low of R$2.1 it set against the dollar on Friday, rising 9 per cent to R$1.92.

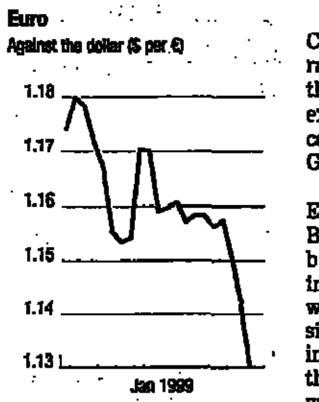
"All eyes are now on the International Monetary Fund. And as long as there are no results, the market is rife for rumours of any kind," said Gene Frieda of the economic consultancy 4Cast in New York.

He added that the recent rise in the BOVESPA, the Brazilian stock index, did not reflect resurgent optimism, but rather inflation expectations.

Meanwhile, Brazil boosted market interest rates again by two per cent to 39 per cent. George Soros called the high level of interest rates "disastrous".

Euro

Against the dollar ($ per €)



Source: Datastream/ICV

■ POUND IN NEW YORK

Feb 1	—Latest—	— Prev. close —
£ spot	1.6415	1.6465
1 mth	1.6403	1.6453
3 mth	1.6371	1.6436
1 yr	1.6368	1.6410

■ OTHER CURRENCIES

Feb 1	£	$
Czech Rp	53.8809 - 53.9384	32.8420 - 32.8880
Hungary	360.800 - 361.184	220.000 - 220.100
Iran	4823.00 - 4820.00	3000.00 - 3000.00
Kuwait	0.4966 - 0.4971	0.3028 - 0.3029
Peru	5.5186 - 5.5302	3.3650 - 3.3700
Poland	6.1090 - 6.1309	3.7250 - 3.7300
Russia	37.9168 - 38.1040	23.1200 - 23.2200
U.A.E.	6.0234 - 6.0276	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Feb 1		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria*	(Sch)	19.9689	+0.0636	566 - 811	19.9851	19.8650	19.927	2.5	19.8434	2.5	19.5114	2.3	102.9
Belgium*	(BFr)	58.5410	+0.1864	050 - 769	58.5800	58.2370	58.4182	2.5	58.173	2.5	57.1998	2.3	102.7
Denmark	(DKr)	10.7950	+0.0356	884 - 016	10.8058	10.7341	10.7763	2.1	10.7402	2.0	10.5886	1.8	105.8
Finland*	(FM)	8.6284	+0.0275	231 - 337	8.6390	8.5830	8.6103	2.5	8.5742	2.5	8.4307	2.3	81.4
France*	(FFr)	9.5192	+0.0303	133 - 250	9.5270	9.4697	9.4992	2.5	9.4594	2.5	9.3011	2.3	106.1
Germany*	(DM)	2.8383	+0.0090	365 - 400	2.8420	2.8227	2.8323	2.5	2.8204	2.5	2.7732	2.3	103.9
Greece	(Dr)	466.042	+1.5730	711 - 372	468.441	463.628	467.898	-4.3	471.333	-4.5	484.75	-4.0	63.0
Ireland*	(I£)	1.1429	+0.0036	422 - 436	1.1438	1.1370	1.1404	2.6	1.1357	2.5	1.1167	2.3	94.1
Italy*	(L)	2809.90	+8.9400	817 - 163	2811.79	2795.29	2804.01	2.5	2792.24	2.5	2745.53	2.3	75.7
Luxembourg*	(LFr)	58.5410	+0.1864	050 - 769	58.5800	58.2370	58.4182	2.5	58.173	2.5	57.1998	2.3	102.7
Netherlands*	(Fl)	3.1980	+0.0101	960 - 000	3.2101	3.1814	3.1913	2.5	3.178	2.5	3.1248	2.3	102.1
Norway	(NKr)	12.3883	+0.0127	804 - 961	12.3972	12.3187	12.407	-1.8	12.4339	-1.5	12.457	-0.6	93.3
Portugal*	(Es)	290.938	+0.9260	759 - 117	291.129	289.418	290.328	2.5	289.109	2.5	284.273	2.3	92.1
Spain*	(Pta)	241.458	+0.7680	310 - 606	241.640	240.200	240.952	2.5	239.94	2.5	235.927	2.3	76.9
Sweden	(SKr)	12.8320	+0.0098	199 - 441	12.8647	12.7543	12.8071	2.3	12.7585	2.4	12.5707	2.0	83.6
Switzerland	(SFr)	2.3351	+0.0034	336 - 366	2.3377	2.3201	2.3266	4.4	2.3101	4.3	2.2478	3.7	107.0
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	100.8
Euro	(€)	1.4512	+0.0046	503 - 521	1.4528	1.4436	1.4482	2.5	1.4421	2.5	1.418	2.3	-
SDR†	-	1.185376	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6403	-0.0018	397 - 408	1.6469	1.6381	-	-	-	-	-	-	-
Brazil	(R$)	3.2236	-0.1606	144 - 328	3.4103	3.2094	-	-	-	-	-	-	-
Canada	(C$)	2.4734	-0.0084	718 - 750	2.4917	2.4715	2.4717	0.8	2.4693	0.7	2.463	0.4	77.6
Mexico	(New Peso)	16.5527	-0.1382	394 - 659	16.7484	16.5037	16.9176	-26.5	17.6581	-26.7	20.7591	-25.4	-
USA	($)	1.6405	-0.0023	400 - 410	1.6475	1.6383	1.6393	0.9	1.6377	0.7	1.6358	0.3	105.3
Pacific/Middle East/Africa													
Australia	(A$)	2.5853	-0.0296	835 - 871	2.6094	2.5776	2.583	1.1	2.5793	0.9	2.5711	0.5	79.6
Hong Kong	(HK$)	12.7119	-0.0178	072 - 166	12.7657	12.6960	12.7087	0.3	12.725	-0.4	12.954	-1.9	-
India	(Rs)	69.7233	-0.1040	959 - 507	69.9890	69.6900	69.9874	-4.5	70.7321	-5.8	74.5845	-7.0	-
Indonesia	(Rupiah)	14600.46	-102.61	400 - 695	14801.40	14507.10	14974.96	-30.8	15852.52	-34.3	19057.96	-30.5	-
Israel	(Shk)	6.6970	-0.0496	863 - 078	6.7355	6.6859	-	-	-	-	-	-	-
Japan	(Y)	188.838	-2.1870	731 - 945	191.160	188.550	188.038	5.1	186.333	5.3	179.733	4.8	133.2
Malaysia‡	(M$)	6.2339	-0.0091	052 - 106	6.2602	6.2255	-	-	-	-	-	-	-
New Zealand	(NZ$)	3.0217	-0.0299	180 - 254	3.0498	3.0179	3.0162	2.2	3.0091	1.7	3.0029	0.6	92.2
Philippines	(Peso)	63.2414	-0.0065	760 - 067	63.5072	62.8640	63.6071	-6.9	64.3876	-7.2	68.1139	-7.7	-
Saudi Arabia	(SR)	6.1527	-0.0086	500 - 554	6.1791	6.1453	6.1555	-0.6	6.169	-1.1	6.2449	-1.5	-
Singapore	(S$)	2.7730	-0.0071	713 - 746	2.7874	2.7700	2.7635	4.1	2.7485	3.5	2.7038	2.5	-
South Africa	(R)	9.9004	-0.0472	892 - 116	9.9921	9.8812	9.9799	-9.6	10.1502	-10.1	10.8784	-9.9	-
South Korea	(Won)	1927.18	-3.1100	454 - 982	1934.17	1920.64	-	-	-	-	-	-	-
Taiwan	(T$)	52.9597	-0.1284	378 - 797	53.2110	52.8925	52.9934	-0.8	53.0551	-0.7	53.4384	-0.9	-
Thailand	(Bt)	60.3212	-0.3803	208 - 216	60.6260	60.1920	60.4161	-1.9	60.6586	-2.2	62.2769	-3.2	-

† Rates for Jan 29. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. * EMU member. The exchange rates printed in this table are also available on the Internet at http://www.FT.com.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Feb 1		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria*	(Sch)	12.1724	+0.0557	686 - 762	12.1826	12.0757	12.1558	1.6	12.1169	1.8	11.9273	2.0	102.7
Belgium*	(BFr)	35.6849	+0.1635	738 - 959	35.7150	35.4010	35.6363	1.6	35.5222	1.8	34.9665	2.0	102.8
Denmark	(DKr)	6.5803	+0.0309	783 - 823	6.5844	6.5300	6.5738	1.2	6.5583	1.3	6.479	1.5	105.2
Finland*	(FM)	5.2596	+0.0240	580 - 612	5.2640	5.2178	5.2524	1.6	5.2356	1.8	5.1537	2.0	80.9
France*	(FFr)	5.8026	+0.0265	008 - 044	5.8075	5.7566	5.7947	1.6	5.7782	1.8	5.6858	2.0	105.8
Germany*	(DM)	1.7302	+0.0080	296 - 307	1.7316	1.7164	1.7278	1.7	1.7223	1.8	1.6953	2.0	103.7
Greece	(Dr)	284.085	+1.3550	970 - 200	284.400	281.660	285.305	-5.2	287.81	-5.2	296.335	-4.3	62.8
Ireland*	(I£)	1.4354	-0.0068	349 - 358	1.4469	1.4342	1.4374	-1.7	1.442	-1.8	1.4649	-2.1	-
Italy*	(L)	1712.83	+7.8400	290 - 336	1714.27	1699.23	1710.5	1.6	1705.02	1.8	1678.35	2.0	75.5
Luxembourg*	(LFr)	35.6849	+0.1635	738 - 959	35.7150	35.4010	35.6363	1.6	35.5222	1.8	34.9665	2.0	102.8
Netherlands*	(Fl)	1.9494	+0.0089	488 - 500	1.9510	1.9339	1.9467	1.6	1.9405	1.8	1.9102	2.0	102.2
Norway	(NKr)	7.5515	+0.0183	490 - 540	7.5668	7.4951	7.5685	-2.7	7.5925	-2.2	7.615	-0.8	92.5
Portugal*	(Es)	177.347	+0.8120	292 - 402	177.500	175.940	177.108	1.6	176.539	1.8	173.777	2.0	92.6
Spain*	(Pta)	147.186	+0.6740	140 - 231	147.310	146.020	146.986	1.6	146.515	1.8	144.223	2.0	76.6
Sweden	(SKr)	7.8220	+0.0169	170 - 270	7.8420	7.7862	7.8125	1.4	7.7895	1.7	7.6845	1.8	83.2
Switzerland	(SFr)	1.4234	+0.0041	229 - 239	1.4250	1.4108	1.4192	3.5	1.4105	3.6	1.374	3.5	105.8
UK	(£)	1.6405	-0.0023	400 - 410	1.6475	1.6383	1.6393	0.9	1.6377	0.7	1.6358	0.3	100.4
Euro	(€)	1.1306	-0.0052	301 - 308	1.1395	1.1288	1.1321	-1.6	1.1357	-1.8	1.1538	-2.1	-
SDR†	-	0.71954	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	+0.0003	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.9650	-0.0950	600 - 700	2.0700	1.9500	-	-	-	-	-	-	-
Canada	(C$)	1.5077	-0.0030	072 - 082	1.5150	1.5070	1.5078	-0.1	1.5079	0.0	1.5056	0.1	77.2
Mexico	(New Peso)	10.0900	-0.0700	850 - 950	10.1000	10.0800	10.32	-27.4	10.7825	-27.5	12.69	-25.8	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	106.8
Pacific/Middle East/Africa													
Australia	(A$)	1.5759	-0.0158	753 - 765	1.5860	1.5718	1.5756	0.3	1.5751	0.2	1.5744	0.1	79.3
Hong Kong	(HK$)	7.7488	-	483 - 493	7.7495	7.7480	7.7526	-0.6	7.7703	-1.1	7.9188	-2.2	-
India	(Rs)	42.5013	-0.0037	975 - 050	42.5070	42.4500	42.6938	-5.4	43.1913	-6.5	45.5938	-7.3	-
Indonesia	(Rupiah)	8900.00	-50.00	000 - 000	9000.00	8845.00	9135	-31.7	9680	-35.1	11650	-30.9	-
Israel	(Shk)	4.0823	-0.0245	770 - 875	4.1055	4.0701	-	-	-	-	-	-	-
Japan	(Y)	115.110	-1.1700	080 - 140	115.950	114.990	114.705	4.2	113.785	4.6	109.87	4.6	133.3
Malaysia‡	(M$)	3.8000	-	300 - 300	3.8000	3.8000	-	-	-	-	-	-	-
New Zealand	(NZ$)	1.8420	-0.0155	403 - 437	1.8515	1.8382	1.8402	1.2	1.8385	0.8	1.8389	0.2	-
Philippines	(Peso)	38.5500	+0.0500	000 - 600	38.6000	38.3000	38.8015	-7.8	39.317	-8.0	41.638	-8.0	-
Saudi Arabia	(SR)	3.7505	-	500 - 510	3.7512	3.7495	3.755	-1.4	3.767	-1.8	3.8175	-1.8	-
Singapore	(S$)	1.6903	-0.0020	898 - 908	1.6940	1.6830	1.6857	3.2	1.6783	2.8	1.6528	2.2	-
South Africa	(R)	6.0350	-0.0203	300 - 400	6.0600	6.0255	6.088	-10.5	6.198	-10.8	6.65	-10.2	-
South Korea	(Won)	1174.75	-0.2500	350 - 600	1175.50	1173.20	-	-	-	-	-	-	-
Taiwan	(T$)	32.2820	-0.0330	790 - 850	32.2900	32.2700	32.327	-1.7	32.397	-1.4	32.667	-1.2	-
Thailand	(Bt)	36.7700	-0.1800	200 - 200	36.8500	36.7000	36.855	-2.8	37.04	-2.9	38.07	-3.5	-

* SDR rate per $ for Jan 29. ‡ Official rate set by Malaysian government. The WM/Reuters rate for the valuation of capital assets is 5.43 MYR/USD, a discount of 30% on the official rate. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & Euro are quoted in US currency. J.P. Morgan nominal indices Jan 29: Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS 4pm CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T. * EMU member. The exchange rates printed in this table are also available on the Internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

Feb 1	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	3⅛	3⅛	3⅛	3	3	-	3.00	3.00
Switzerland	1⅛	1⅛	1⅛	1⅛	1⅛	-	1.00	-
US	4⅝	4⅞	4⅞	4⅞	5⅛	-	4.50	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	⅜	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	4⅞	4⅞	4⅞	5⅛	-	-	-
US Dollar CDs	-	4.73	4.73	4.73	4.75	-	-	-
Euro Linked Ds	-	3⅛	3⅛	3⅛	3⅛	-	-	-
SDR Linked Ds	-	3⅝	3¼	3⅛	3⅛	-	-	-
BBA Euro Libor	-	3⅛	3⅛	3⅛	2⅞	-	-	-
Euro Euribor	-	3.126	3.078	3.017	2.988	-	-	-
EONIA	3.17	-	-	-	-	-	-	-
EURONIA	3.1784	-	-	-	-	-	-	-

London Interbank Fixing rate (LIBOR) is the BBA London rate fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, Euro & SDR Linked Deposits (Ds).

INTERNATIONAL CURRENCY RATES

Feb 1	Short term	7 days notice	One month	Three months	Six months	One year
Euro	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3	3⅛ - 2⅞	3⅛ - 2⅞
Danish Krone	4 - 3⅞	3⅞ - 3⅞	3⅞ - 3⅞	3⅞ - 3⅞	3⅞ - 3⅞	3⅞ - 3⅞
Sterling *	7⅛ - 6⅞	6⅛ - 5⅞	6 - 5⅞	5⅞ - 5⅞	5⅞ - 5⅝	5⅝ - 5¼
Swiss Franc	1⅛ - ⅞	1⅛ - ⅞	1⅛ - 1⅛	1⅛ - 1⅛	1⅛ - 1⅛	1⅛ - 1⅛
Canadian Dollar	5⅛ - 5	5⅛ - 4⅞	5⅛ - 4⅞	5 - 4⅞	4⅞ - 4⅞	5⅛ - 4⅞
US Dollar	4⅞ - 4⅝	4⅞ - 4⅞	4⅞ - 4⅞	4⅞ - 4⅞	4⅞ - 4⅞	5⅛ - 5
Japanese Yen	⅛ - ⅛	⅛ - ⅛	⅛ - ⅛	⅛ - ⅛	⅛ - ⅛	⅛ - ⅛
Asian $Sing	⅛ - -	1⅛ - ⅞	1⅛ - 1⅛	2⅛ - 1⅞	2⅛ - 2	2⅛ - 2⅛

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	97.020	96.990	-0.035	97.020	96.955	6,336	31,586
Jun	97.170	97.125	-0.045	97.170	97.120	3,680	18,495

■ THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	97.025	96.980	-0.050	97.025	96.970	30056	87724
Jun	97.165	97.110	-0.060	97.165	97.100	27327	89778
Sep	97.200	97.145	-0.065	97.200	97.140	23304	48947
Dec	96.950	96.930	-0.040	96.960	96.920	10177	60538

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	97.010	96.980	-0.050	97.015	96.975	3879	165028
Jun	97.150	97.110	-0.060	97.150	97.110	8957	137510
Sep	97.190	97.145	-0.065	97.190	97.150	1785	127718
Dec	96.945	96.930	-0.035	96.955	96.925	1947	101484

■ EURIBOR OPTIONS (LIFFE) €1m 100 - rate

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Mar	PUTS Jun	PUTS Sep	PUTS Dec
96875	0.110	0.120			0.005	0.015		
97000	0.010	0.050	0.160	0.175	0.030	0.070	0.050	0.065
97125	0.005	0.020			0.150	0.165		
97250	0	0.005	0.045	0.065	0.270	0.275	0.185	0.205

Est. vol. total, Calls 6156 Puts 5405. Previous day's open int., Calls 44921 Puts 24673

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100 - rate

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Mar	PUTS Jun	PUTS Sep	PUTS Dec
96875	0.110	0.120			0.005	0.015		
97000	0.010	0.050	0.160	0.175	0.030	0.070	0.050	0.065
97125	0.005	0.015			0.150	0.160		
97250	0	0.005	0.045	0.065	0.270	0.275	0.185	0.205

Est. vol. total, Calls 6196 Puts 356. Previous day's open int., Calls 337888 Puts 183907

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.630	98.630	-0.010	98.670	98.620	9075	88220
Jun	98.540	98.530	-0.010	98.580	98.520	4267	46429
Sep	98.450	98.430	-0.010	98.460	98.420	1159	32117
Dec	98.120	98.100	-0.010	98.130	98.090	562	13508

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	99.37	-	-	-	0	n/a
Jun	-	99.48	+0.02	-	-	0	n/a
Sep	-	99.41	+0.02	-	-	0	n/a

* LIFFE futures also traded on APT

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr1m 100 - rate

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
98750	0.060	0.105	0.130	0.180	0.325	0.450
98875	0.030			0.275		

Est. vol. total, Calls 30 Puts 0. Previous day's open int., Calls 3025 Puts 2112

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Feb 1		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	€
Belgium*	(BFr)	100	18.44	16.26	4.848	1.952	4800	5.463	21.16	497.0	412.5	21.92	3.989	1.708	4.225	2.802	322.6	2.479
Denmark	(DKr)	54.23	10	8.818	2.629	1.059	2603	2.963	11.48	269.5	223.7	11.89	2.163	0.926	2.291	1.520	174.9	1.344
France*	(FFr)	61.50	11.34	10	2.982	1.201	2952	3.360	13.01	305.6	253.7	13.48	2.453	1.051	2.598	1.723	198.4	1.525
Germany*	(DM)	20.63	3.803	3.354	1	0.403	990.0	1.127	4.365	102.5	85.07	4.521	0.823	0.352	0.871	0.578	66.53	0.511
Ireland*	(I£)	51.22	9.445	8.329	2.483	1	2459	2.798	10.84	254.6	211.3	11.23	2.043	0.875	2.164	1.435	165.2	1.270
Italy*	(L)	2.083	0.384	0.339	0.101	0.041	100	0.114	0.441	10.35	8.593	0.457	0.083	0.036	0.088	0.058	6.720	0.052
Netherlands*	(Fl)	18.31	3.376	2.977	0.888	0.357	878.6	1	3.874	90.97	75.50	4.013	0.730	0.313	0.773	0.513	59.05	0.454
Norway	(NKr)	47.26	8.714	7.684	2.291	0.923	2268	2.581	10	234.8	194.9	10.36	1.885	0.807	1.997	1.324	152.4	1.171
Portugal*	(Es)	20.12	3.710	3.272	0.976	0.393	965.8	1.099	4.258	100	82.99	4.411	0.803	0.344	0.850	0.564	64.91	0.499
Spain*	(Pta)	24.24	4.471	3.942	1.175	0.473	1164	1.324	5.131	120.5	100	5.314	0.967	0.414	1.024	0.679	78.21	0.601
Sweden	(SKr)	45.62	8.413	7.418	2.212	0.891	2190	2.492	9.654	226.7	188.2	10	1.820	0.779	1.928	1.278	147.2	1.131
Switzerland	(SFr)	25.07	4.623	4.077	1.215	0.489	1203	1.370	5.305	124.6	103.4	5.495	1	0.428	1.059	0.703	80.87	0.621
UK	(£)	58.54	10.79	9.519	2.838	1.143	2810	3.198	12.39	290.9	241.5	12.83	2.335	1	2.473	1.641	188.8	1.451
Canada	(C$)	23.67	4.364	3.849	1.148	0.462	1136	1.293	5.009	117.6	97.62	5.188	0.944	0.404	1	0.663	76.35	0.587
USA	($)	35.68	6.580	5.802	1.730	0.697	1713	1.949	7.552	177.3	147.2	7.822	1.423	0.610	1.508	1	115.1	0.885
Japan	(Y)	31.00	5.717	5.041	1.503	0.605	1488	1.694	6.560	154.1	127.9	6.795	1.237	0.530	1.310	0.869	100	0.768
Euro	(€)	40.34	7.439	6.560	1.956	0.788	1936	2.204	8.537	200.5	166.4	8.842	1.609	0.689	1.704	1.131	130.1	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100. * EMU member

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.5831	0.5807	-0.0017	0.5839	0.5807	10,835	57,109
Jun	0.5843	0.5841	-0.0013	0.5843	0.5840	256	1,629
Sep	-	0.5685	-	-	-	24	168

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.7104	0.7077	-0.0026	0.7119	0.7073	10,401	56,527
Jun	-	0.7150	-0.0016	-	0.7150	8	468
Sep	-	0.7226	-	-	-	-	340

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.8669	0.8706	+0.0069	0.8729	0.8668	15,473	68,905
Jun	0.8813	0.8807	+0.0070	0.8815	0.8803	32	4,961
Sep	-	0.8838	-	-	-	-	1,436

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.6458	1.6390	-0.0060	1.6462	1.6386	4,236	54,250
Jun	1.6370	1.6370	-0.0060	1.6470	1.6370	357	1,666
Sep	-	1.6350	-0.0072	-	1.6350	-	230

UK INTEREST RATES

LONDON MONEY RATES

Feb 1	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7⅛ - 6	6⅛ - 6	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	5⅝ - 5⅝
Sterling CDs	-	-	6⅛ - 6	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞
Treasury Bills	-	-	5⅞ - 5⅞	5⅞ - 5⅞	-	-
Bank Bills	-	-	5⅞ - 5⅞	5⅞ - 5⅞	-	-
Local authority deps.	5⅞ - 5⅞	6 - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞
Discount Market deps	6 - 5⅞	5⅞ - 5⅞	-	-	-	-

UK clearing bank base lending rate 6 per cent from Jan 7, 1999

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Jan 29 5.2557pc. ECGD fixed rate Stg. Export Finance. Make up day Jan 29, 1999. Agreed rate for period Feb 24, 1999 to Mar 23, 1999, Scheme III 7.19pc. Reference rate for period Jan 1, 1999 to Jan 29, 1999 Scheme IV & V 5.908pc. Finance House Base Rate 6.5pc for Feb 1999.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.390	94.380	-	94.410	94.370	14855	189974
Jun	94.730	94.720	+0.010	94.740	94.710	15207	193954
Sep	94.910	94.900	+0.005	94.930	94.890	14502	176975
Dec	94.800	94.790	+0.015	94.840	94.780	7526	143388
Mar	95.090	95.065	-0.005	95.110	95.050	8896	127700

Also traded on APT. All Open interest figs. are for previous day

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
94250	0.170	0.515	0.725	0.040	0.045	0.075
94375	0.095			0.090		
94500	0.060	0.320	0.530	0.180	0.100	0.130
94625	0.030			0.275		
94750	0.015	0.165	0.365	0.385	0.195	0.215
94875	0.010			0.505		

Est. vol. total, Calls 17940 Puts 7657. Previous day's open int. Calls 511472 Puts 552130

EMS EUROPEAN CURRENCY UNIT RATES

Feb 1	Euro cen. rates	Rate against Euro €	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	353.109	321.10	+0.12	-9.06	9.61	61
Denmark	7.46038	7.4363	+0.0004	-0.32	0.00	2
NON ERM MEMBERS						
UK	0.653644	0.69040	-0.0006	5.62	-5.63	-

Euro central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Euro; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Euro central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Euro central rate. 17/9/92: Sterling suspended from ERM. 16/3/98. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Feb	CALLS Mar	CALLS Apr	PUTS Feb	PUTS Mar	PUTS Apr
1.630	1.32	1.96	2.51	0.49	1.18	1.87
1.640	0.78	1.50	2.07	0.84	1.59	2.31
1.650	0.45	1.06	1.65	1.41	2.21	2.83

Previous day's vol., Calls 0 Puts 3. Prev. day's open int., Calls 452 Puts 1,463

■ PHILADELPHIA SE D-MARKS OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Feb	CALLS Mar	CALLS Apr	PUTS Feb	PUTS Mar	PUTS Apr
0.575	0.53	0.87	1.17	0.16	0.41	0.60
0.580	0.28	0.58	0.89	0.41	0.64	0.83
0.585	0.13	0.39	0.66	0.74	0.94	1.11

Previous day's vol. Calls - Puts - . Prev. day's open int., Calls 403 Puts 3,560

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.04	95.03	-0.01	95.04	95.02	51,938	460,422
Jun	95.10	95.07	-0.02	95.10	95.06	86,455	435,181
Sep	95.11	95.09	-0.02	95.11	95.08	153,282	401,181

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.72	95.72	-0.05	95.72	95.72	323	1,976
Jun	-	95.84	-	-	-	6	115

All Open interest figs. are for previous day

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Exeter Trust Limited	7.00	●Singer & Friedlander	6.00
Allied Irish Bank (GB)	6.00	Financial & Gen Bank	8.00	Smith & Williamson	6.00
●Henry Ansbacher	6.00	●Robert Fleming & Co	6.00	Sun Bank	6.00
Banco Bilbao Vizcaya	6.00	Habib Bank AG Zurich	6.00	TSB	6.00
Bank of Cyprus	6.00	Heritable & Gen Inv Bk	6.00	United Bank of Kuwait	6.00
Bank of Ireland	6.00	C. Hoare & Co	6.00	Unity Trust Bank Plc	6.00
Bank of India	6.00	●SG Hambros Bank & Trust	6.00	Whiteaway Laidlaw	6.00
Bank of Scotland	6.00	Hongkong & Shanghai	6.00	Yorkshire Bank	6.00
Barclays Bank	6.00	Investec Bank (UK) Ltd	6.00		
Brit Bk of Mid East	6.00	Julian Hodge Bank	6.00	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	6.00	●Leopold Joseph & Sons	6.00		
Citibank NA	6.00	Lloyds Bank	6.00		
Clydesdale Bank	6.00	Midland Bank	6.00		
The Co-operative Bank	6.00	NatWest	6.00		
Coutts & Co	6.00	●Rea Brothers	6.00		
Cyprus Popular Bank	6.00	Royal Bk of Scotland	6.00		
Duncan Lawrie	6.00	●Scottish Widows Bank	6.75		

SFE to trade commodities on screen

By Gwen Robinson in Sydney

The Sydney Futures Exchange has formed a joint venture with Computershare, an information technology provider, and Agtex Australia, an agricultural services group, in efforts to establish an electronic trading market for physical commodities, to be known as the Commodities Exchange of Australia. Traders and farmers welcomed the move.

In a separate development, however, many traders expressed concern about a delay in the SFE's planned switch from open outcry pit-trading to fully electronic trading. The exchange said last week it had pushed back the date of the switch from March to October 1.

Members blamed bugs in the SFE's new system for the delay. The switch should be made after Sycom IV, the SFE's upgraded Windows NT screen-based trading platform, is installed in June.

Members are concerned the delay will add to pressures in preparing for the switch to year 2000-compliant systems. Some have said they would not accept any new systems after the third quarter of 1999 and probably not until after the first quarter of 2000. But the SFE said the planned October 1 conversion to fully screen-based trading, falling between the September contracts' roll-over period and a public holiday, would cause minimal impact.

The exchange said last week its planned CXA would be fully electronic, initially providing spot and forward markets for grains, pulses, oilseeds and other agricultural products. A feasibility study would be completed by the end of March and a launch date announced shortly thereafter, it said.

The new market, which would eventually operate through the internet, would also seek to create markets for non-agricultural commodities and explore opportunities to establish markets off-shore, said Les Hosking, SFE chief executive.

He added that the new exchange would promote transparency in transactions involving rural commodities, and help farmers and buyers gauge supply and demand more accurately.

"This will reduce costs and the exposure growers or consumers will have to not getting the right price," he said. Most traders of rural commodities rely on offshore markets or the SFE's futures contracts as the only public pricing mechanisms available to assess the market.

A centralised exchange for physical commodities would encourage price transparency and transaction security. Guarantees of financial performance and settlement by the SFE Clearing House, which is backed by a $150m guarantee fund, would help to eliminate counterparty risk, he said. Throughout the extreme volatility of the Asian crisis, the exchange's clearing house performed without fault or incident, Mr Hosking added.

Computershare would develop and operate an electronic trading platform for the new exchange, while Agtex would provide marketing services and co-ordinate the exchange's relationship with bulk handlers.

The SFE is also continuing talks with the Australian Stock Exchange on a merger proposal. An initial merger agreement should be ready by July, members said. The ASX demutualised last year and listed on its own boards in a highly successful compliance listing.

Freeport McMoRan in royalties struggle

By Sander Thoenes in Jakarta

Freeport McMoRan, the US mining company that operates the world's largest gold mine and third largest copper mine, is struggling to reach a compromise with Indonesian officials who want to double the royalties it pays and block its expansion plans.

Freeport, which operates the Grasberg mine in Irian Jaya in a joint venture with Rio Tinto, has been the prime target of a public backlash against investors closely affiliated with former president Suharto. Kuntoro Mangkusubroto, the mining and energy minister, said last week he would approve expansion only if royalties were doubled, threatening Freeport's battered earnings and share price.

"It's payback time for their close relationship with Suharto," one mining executive said.

Freeport officials yesterday met Mr Kuntoro, following a meeting a week earlier between Jim Bob Moffett, Freeport's CEO, and President B.J. Habibie. While Mr Habibie then approved expansion of the mine to 300,000 tonnes, Mr Kuntoro has continued to object, citing concern over the environment and lack of benefits for the local community.

Freeport officials would not comment except to note that the mining licence allows for an increase in royalties only if prices of copper, gold or silver rise. The company has insisted in the past that tailings from the huge mine are not toxic, but environmental groups in Indonesia reacted furiously to Mr Habibie's sudden approval of expansion.

"Freeport lacks real friends in the ministry at a time when they most need it," the mining executive said. "Moffett now finds the cost of boasting about his ties with Suharto."

One mining analyst suggested, however, that Freeport might have quietly agreed to an increase in payments in a way that would avoid changing the contract, which would require approval in parliament, where Freeport has also been under attack.

"Call them contributions to the local community," he said. "As long as Freeport agrees, there is nothing wrong with it. So far, they have not objected publicly."

Freeport's 30-year lease on the mine, agreed in 1991, was already a renegotiated version of a 1973 contract for a much more modest operation. As in the meeting with Mr Habibie, Mr Moffett at the time asked Mr Suharto to override objections by his ministers.

Freeport has since been fending off accusations that it rewarded Mr Suharto and his associates for their support by selling undervalued shares in the mine and over-valued supply contracts.

A foreign mining executive said there was little chance that a renegotiation of the contract with Freeport would endanger other mining contracts, which have a Lex Specialis clause protecting investors from legal changes. Mr Kuntoro has assured investors that the contracts of work are sacred.

"I don't think this is actually a policy shift," the executive said. "Freeport has always been different from the rest of us."

Instead, mining companies expect royalties to rise only for new projects, as planned in a draft law on mining that has yet to be submitted to parliament.

Freeport McMoRan reported record production and sales in the fourth quarter of 1998 but said that because of varying ore grades and operation rates, sales would fall from 1.7bn pounds of copper and 2.8m ounces of gold in 1998 to 1.4bn pounds and 2m ounces respectively in 1999. It has not firmly decided on expansion to 300,000 tonnes.

Lucky strike at Cananea mine

By Andrea Mandel-Campbell in Mexico City

A stand-off between miners and management at the Cananea copper mine in 1906 heralded the coming of the Mexican revolution.

This time, a two-month old strike at the huge open pit mine is seen as a blessing in disguise for an industry hard hit by falling prices, say market analysts.

Nearly 2,000 union workers walked out of the historic mine in the northern province of Sonora, just 60km from the US border, on November 19.

Yet as the strike enters its 10th week, the conflict has received little publicity and analysts are almost flippant about the impact the stoppage could have on Grupo Mexico, the mine owner, responsible for 95 per cent of Mexico's copper output.

While the group is considered one of the leading low-cost producers, averaging 47 cents a pound throughout its operations, the cost of producing copper concentrate at the ageing Cananea is about 67 cents a pound – above the market price of 65 cents a pound.

"We never meant it to happen, but we've stopped losing money," joked Gabino Paez, director of industrial relations for Grupo Mexico.

Rene Kleyweg, mining analyst with Merrill Lynch & Co in New York, added: "The strike is not entirely unfortunate for the company. In fact, it's quite convenient for them. They aren't losing out and if anything it helps the current oversupply."

Santander Investment says Cananea is losing $2.7m a week in potential revenue on the 1,775 tonnes it produces in the form of Blister copper and copper cathodes.

But despite higher fixed costs for Grupo Mexico, which achieved sales of $1.3bn last year, "there won't be a very significant impact on margins", said Sandra Morfin, analyst with Santander, predicting a $16m drop in fourth-quarter profit.

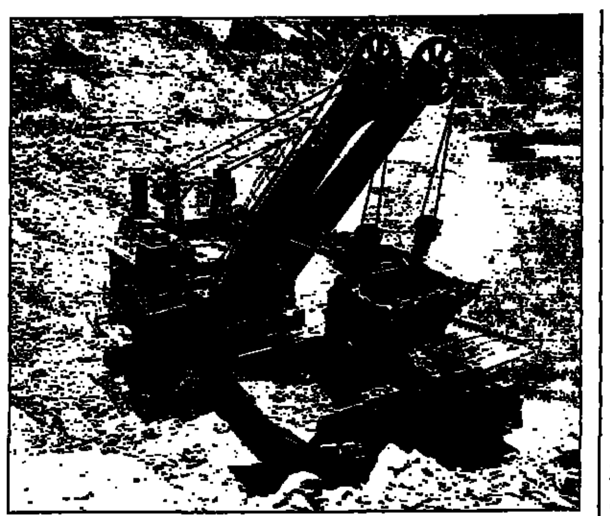
Cananea also ships 3,000 tonnes of copper concentrate a week to La Caridad, Grupo Mexico's neighbouring smelter, representing one-third of La Caridad's supply. But the refinery, one of the largest in North America, has been able to rely on significant stockpiles because of a recent maintenance shutdown. The company has recently begun to buy concentrate on the market, but there is plenty of surplus, say analysts, as Chile continues to churn out copper to offset falling prices.

What is more uncertain is when the strike will end. Grupo Mexico officials say miners should be back at work in one to two weeks. Market observers point out that workers' productivity bonuses are at stake.

The union is protesting about a move by the company to raise the level at which workers receive bonuses.

Grupo Mexico recently invested $150m in technology to increase concentrator capacity from 300,000 tonnes of raw material a day to 335,000 tonnes and does not believe workers should receive bonuses for increased capacity thanks to better technology.

The company says the issue of productivity targets was settled in October and the walk-out was caused by internal politics within the union.



With costs higher than prices the strike is saving the mine money

Copper stocks at record levels

MARKETS REPORT

By Paul Solman and Robert Corzine

Copper prices fell again yesterday as London Metal Exchange stocks reached a record high. The LME said inventories of the base metal held in its warehouses had risen to 646,675 tonnes, beating the previous record of 645,300 tonnes set more than 20 years ago.

The figures are the latest sign that global over-supply of the red metal continues to weigh heavily on the market. Analysts say lower prices are likely unless producers curb output.

Three-month copper closed yesterday at $1,427 a tonne, $7 lower than Friday's level. A fall to $1,420 would represent the lowest price for almost 12 years.

Zinc closed higher in spite of a report showing that world production of the metal rose last year.

The International Lead and Zinc Study Group said total output in the 11 months from January to November was 7.3m tonnes against 7m tonnes in the same period of 1997.

Consumption was almost unchanged at 7.14m tonnes against 7.13m tonnes in 1997. Three-month zinc finished $12.50 higher at $989 a tonne.

Oil prices fell yesterday as markets failed to hang on to Friday's gains. Brent Blend for March delivery was quoted at $11.12 a barrel in late trading on London's International Petroleum Exchange, down 23 cents on Friday's close.

Reports that the Saudi Arabian and Venezuelan oil ministers planned to meet in Caracas to discuss the possibility of further contacts with non-Opec producers made little impact on the market.

There was also little reaction to statements from Venezuela's new government that it intended to implement fully production cuts agreed last year.

Analysts expressed scepticism about the possibility of early Opec action to boost prices, given the group's patchy adherence to existing cuts and the continued global economic uncertainty.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1196-97	1206-07
Previous	1197.5-8.5	1209.5-10.0
High/low		1212/1204
AM Official	1194-95	1204.5-05
Kerb close		1212-13
Open int.	272,678	
Total daily turnover	82,489	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1025-30	1047-48
Previous	1022-27	1045-6
High/low		1055/1045
AM Official	1029-31	1046-47
Kerb close		1055-60
Open int.	6,955	
Total daily turnover	3,312	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	490-1	492-3
Previous	490-91	489-90
High/low		498/489
AM Official	484.5-85.0	489-9.5
Kerb close		497-8
Open int.	35,287	
Total daily turnover	8,457	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4190-200	4260-65
Previous	4205-15	4275-80
High/low		4300/4240
AM Official	4210-15	4260-65
Kerb close		4285-90
Open int.	70,880	
Total daily turnover	19,896	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5155-65	5135-45
Previous	5165-70	5140-45
High/low		5150/5135
AM Official	5170-80	5150-60
Kerb close		5150-55
Open int.	21,025	
Total daily turnover	3,843	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	971-2	988-9
Previous	958-9	975.5-6.5
High/low		997/975
AM Official	964-64.5	981-82
Kerb close		996-6.5
Open int.	94,852	
Total daily turnover	38,121	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1399-400	1426-27
Previous	1405-6	1433-34
High/low		1436/1426
AM Official	1408-08.5	1435-35.5
Kerb close		1434-35
Open int.	173,187	
Total daily turnover	57,748	

■ LME AM Official £/$ rate: 1.6425

LME Closing £/$ rate: 1.6410

Spot: 1.6411 3 mths: 1.6383 6 mths: 1.6368 9 mths: 1.6361

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	64.20	+0.05	64.20	63.80	735	1,275
Mar	64.60	+0.10	64.70	63.70	8,454	44,039
Apr	65.10	+0.15	65.00	64.65	112	1,957
May	65.45	+0.10	65.60	64.65	496	6,631
Jun	65.85	+0.15	66.05	65.85	17	1,539
Jul	66.20	+0.20	66.30	65.40	1,629	6,011
Total					n/a	n/a

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	287.40-287.90		
Opening	287.20-287.50		
Morning fix	287.10	174.85	252.40
Afternoon fix	288.90	175.05	253.78
Day's High	287.70-288.00		
Day's Low	286.60-286.90		
Previous close	286.00-286.50		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.29	6 months	3.95
2 months	4.23	12 months	3.51
3 months	4.18		

[illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	289.2	+2.9	290.0	286.7	5,646	5,476
Mar	290.0	+2.8	–	–	1	2
Apr	290.9	+2.7	291.3	288.4	30,450	99,214
Jun	292.8	+2.8	293.1	290.4	746	24,581
Aug	294.7	+2.8	293.4	293.2	186	7,011
Oct	296.6	+2.9	–	–	2	2,796
Total					n/a	n/a

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	349.6	+2.7	349.8	347.0	2,232	11,123
Jul	352.7	+2.8	353.5	353.5	105	1,297
Oct	355.3	+2.8	–	–	100	1,081
Total					n/a	n/a

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	343.65	+8.00	344.00	340.00	312	2,442
Jun	336.65	+8.00	335.00	335.00	13	182
Sep	334.65	+8.50	–	–	1	127
Total					n/a	n/a

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	529.5	+7.3	–	–	20	10
Mar	530.8	+7.3	532.0	523.5	17,620	44,370
May	533.1	+6.8	534.5	527.0	940	12,520
Jul	534.1	+6.8	535.0	526.0	2,308	9,631
Sep	535.6	+6.2	536.0	536.0	1,377	3,627
Dec	536.4	+5.9	535.0	531.0	329	6,345
Total					n/a	n/a

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

[illegible]

■ CRUDE OIL IPE ($/barrel)

[illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

[illegible]

■ GAS OIL IPE ($/tonne)

[illegible]

■ NATURAL GAS IPE

[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

[illegible]

■ BARLEY LIFFE (100 tonnes; £ per tonne)

[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

■ POTATOES LIFFE (20 tonnes; £ per tonne)

[illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

[illegible]

PULP AND PAPER

■ PULPEX OMLX (USS: 24 air dry tons)

[illegible]

FUTURES DATA

All futures data supplied by CMS.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

[illegible]

■ COCOA (ICCO) (SDR's/tonne)

[illegible]

■ COFFEE LIFFE (5 tonnes; $/tonne)

[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

[illegible]

■ COFFEE (ICO) (US cents/pound)

[illegible]

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]

VOLUME DATA

[illegible]

INDICES

■ Reuters (Base: 18/9/31 = 100)

[illegible]

■ CRB Futures (Base: 1967 = 100)

[illegible]

■ GSCI Spot (Base: 1970 = 100)

[illegible]

LME WAREHOUSE STOCKS (tonnes)

[illegible]

Minor Metals from Metal Bulletin

[illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

[illegible]

■ LEAN HOGS CME (40,000lbs; cents/lbs)

[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lb)

[illegible]

LONDON TRADED OPTIONS

[illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

[illegible]

■ OIL PRODUCTS

[illegible]

■ NATURAL GAS

[illegible]

■ OTHER

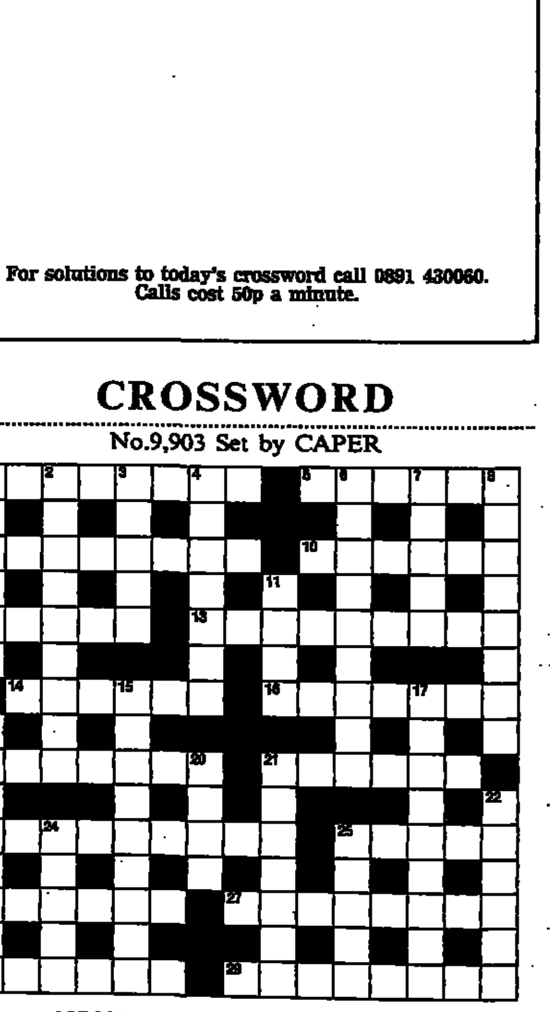
[illegible]

JOTTER PAD

For solutions to today's crossword call 0891 430080. Calls cost 50p a minute.

CROSSWORD

No.9,903 Set by CAPER



ACROSS

1 11 smooth West Indian chief (8)
5 11 go off vehicle in the lead (6)
9 One often guards a person from NE France (8)
10 Fight soldiers for ancient Greek city (6)
12 Postpone starter of figs in venison (5)
13 These girls have their pride (9)
14 11 beats (6)
16 Like Pooter, starts to describe ideas and ruminations in specific tome (7)
19 Mostly unnecessary pointers (7)
21 Karen and I foolishly make loads of bread (4,2)
23 Steal entire collection gathered for 25 across? (4,5)
25 Such as 1 down, 3, 4, 6, 18 and 21 down (5)
26 Took tea in a different situation? (3,3)
27 Tyrannical ruler finally agreed to amended riot act (8)
28 Quiz follows American city news (6)
29 Abandons outside second 11?(8)

DOWN

1 Too timid without 25 across (6)
2 Strange wind instrument you certainly wouldn't sniff at! (4,5)
3 Chap who serves 11 and 25 across? Dropping one for 25 across (5)
4 Church has absolute happiness – not quite 25 across (7)
6 25 across, sailor follows fruit (9)
7 It's right to have bouncers outside ferries (2-3)
8 Changes trains – being lost in centre of Port Said (8)
11 Such as 1 across, 5, 14, 29, 20 and 25 down (4)
15 Places where you get a grilling! (9)
17 It starts to rain violently outside Italian institute (9)
18 Rapidly increase 25 across (8)
20 Developer's 11 (4)
21 Left succeed eastern 25 across (3,4)
22 Goes round and cuts girls' garments (6)
24 At home, exercise without energy is useless (5)
25 Goes out with 11 (5)

Solution to Saturday's prize puzzle on Saturday February 13.
Solution to yesterday's prize puzzle on Monday February 15.

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

MFS Meridian Funds - Contd.

Marshall Wace Asset Management Limited

GUERNSEY (FSA RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

Aberdeen Prolific Intl Fund Plc

BT Fund Managers (Ireland) Ltd (a)

Global Asset Management (GAM)

The Hadid Mutual Investment Company Plc

Henderson Crosthwaite Investment Co

Herald Investment Fund Plc

Christows Investments Plc

Investec Guinness Flight FM (Ireland) Ltd

Lazard Investment Funds Ltd

IRELAND (REGULATED)(**)

AIM Capital Funds Plc (z)

AIM Global Management Company Limited

AMS Management Limited

AON International Funds Plc

Abbey National Dublin Investment Fund Plc

Gordon House Asset Management Ltd

HSBC Asset Management

Prudential Securities Futures Mgmt Inc

Putnam World Trust

Rothschild Asset Management (Ireland) Ltd

J. Rothschild International Assce plc

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

FT MANAGED FUNDS SERVICE

• FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

[illegible]

JERSEY
(REGULATED)(**)

[illegible]

LUXEMBOURG
(FSA RECOGNISED)

[illegible]

LUXEMBOURG
(REGULATED)(**)

[illegible]

OFFSHORE INSURANCES

[illegible]

هكذا من الاصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

CMI Insurance Co Ltd

Old Mutual International (Guernsey) Ltd

AXA Investment Managers Hong Kong Ltd

AXA Investment Managers Paris

Aberdeen Asset Management Asia Limited

Crystal Fund Managers (Bermuda) Ltd

Culross Global Management Limited

DWS Deutsche Ges. F. Wertpapiersp

Dachan Investment Trust Co Ltd

GT Global

Galileo Group

Garantia Banking Ltd

Indocam Asia

Moneda Asset Management

Mont Blanc Management Investments Ltd

Montgomery Emerg Communications Fd Ltd

Montpelier Asset Management Ltd

Moore Global Investment

Morgan Stanley/BLL Global Allocation Fd Ltd

Scudder, Stevens & Clark Inc

SEASAM Return Fund Ltd

Dresdner Bank Investment Group

Global Asset Management - Contd.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Continued

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Continued

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

	Notes	Price	+ or -	52 week high	52 week low	Yld Gr's	NAV	Dis or Pm(-)
Approved by the Inland Revenue								
Aberdeen Emg Asia	♣	23½	+1	*39½	13½	–	28.4	17.3
Warrants		6¼	–	7¼	0¾	–	–	–
Atlantic Japan Gwth Fd.		283	+½	282	158	–	325.7	22.9
Warrants		3¼	–	41	1¼	–	–	–
Baring Emrg Euro	♣	95	+1	118	65	–	117.3	19.1
Warrants		40¼	+½	67½	29¼	–	–	–
Brazilian It	N	33	—	61¼	19¼	3.1	–	–
Warrants		6¼	–	33½	7	–	–	–
Central Euro Gwth	♣	43¾	+½	60¾	28¾	–	55.1	20.6
Warrants		0½	–	11¼	0½	–	–	–

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

PROPERTY - Continued

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Lon & Assoc Prps	♣	26½	—	38¼	20¾	–	4.4	10.8
Lon Merchant	♣	107	-½	141½	105½	80	6.2	14.4
7¼pc Cnv '00/05		£115	—	£141½	£105½	–	6.7	–
Dfd	S	75½	—	95	75½	–	–	–
London Secs		89	—	110	85	–	2.8	7.0
MEPC	N	415xd	+21¼	659	367	622	2.9	43.9
Marldene Raoch Scts	♣	73½	+1	119½	70½	42	6.4	5.6
Warrants		8½	—	15	7½	–	–	–
7¼pc Loan 2020		£91½	+½	199	£87½	–	8.2	–
McKay Secs	♣†	128xd	—	152	125	–	5.1	13.4
Mountvale Moore	♣	71½	—	97½	57½	–	4.4	5.2

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Continued

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Ibos	♣‡	60	—	213½	42½	16	10.4	7.7
JBA	♣	117½	+23½	1257½	50	1,458	5.4	28.7
Johnson Service	†	271½	—	330	180	2	5.9	9.4
Kalamazoo Cmptr	♣	48	-½	63½	30½	11	–	–
Kewill Syst	♣†	1475xd	—	1585	690	13	0.9	31.4
Laser-Scan		15	—	24½	11	–	–	–
Latchways	♣†	311xd	-1½	341	169½	–	2.7	22.3
Lavendon	♣†	261	—	351	222½	8	2.0	15.8
Logica	♣	888	+43½	*986	245½	1,219	0.4	78.7
London Bridge Software	♣‡	1895	—	1900	561½	10	0.3	–
Lorien	♣	127½	+15	805½	103	381	7.4	6.2

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		£95⁄₁₆	—	*£19⅜	£6¼	–	6.0	6.1
Barlow R	♣	£2⅞	+⅛	£5¼	£1⅝	–	5.2	φ
Investec Group		£21¼	+¼	£25¾	£12⅞	–	–	–
Investec Hldgs		£19⅝	+¼	£26¼	£12⅜	–	–	–
SA Breweries R	Z	£9⅛	+⅛	£20¼	£7¼	–	3.7	14.9
Standard Bank R		£1⅝	—	*£3½	£1⅛	–	2.7	–
Tiger Oats		625	—	980	375	–	2.9	12.3
Tongaat-Hulett R		381½	-5¼	754¼	287¼	–	5.9	6.3

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRANS		857600xd	—	891200	847700	–	–	–

AIM

Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the SE Official list.

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
10 Group		1	—	3¼	0¾	–	–	–
AFA Systems		105	+6	191	74½	–	–	–
AMCO		85	—	128½	93½	–	9.2	7.1
ATA	Z	115½	—	157½	115½	–	2.2	9.1
Actival Group		45	—	67½	44½	–	–	7.7
Access Plus	♣†	205	+10	271	175	–	3.1	17.2
African Gold	♣	2½	—	7¼	2	–	–	–
Albemarle & Bond	♣	77	-½	96½	41½	–	1.6	21.0
Allzyme	♣	28½	+2	43½	24	–	–	–
Ambient Media		43½	—	102½	42½	–	–	–
Ambishus Pub Co	♣	174	+4	289	88½	–	–	16.0
Anglo Siberian Oil Co		96½	—	108½	96½	–	–	–
Anglo-Welsh	♣	103½	—	119	72½	–	3.6	8.5
Antonov	♣	82½	-2½	117½	62½	–	–	φ
AorTech	♣	72½	—	107½	72½	–	–	φ
Argo Resources	♣	85	—	100	80	–	6.2	28.8

AIM - Continued

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
VFG	♣	49	-½	64½	42½	–	2.8	10.3
VI		15	-2½	59½	15	–	–	14.2
Victory Corpn	♣	7½	—	37½	7¼	–	–	–
WMA	♣	35½	—	85½	29½	–	–	34.8
Weather Action		52½	—	97½	52½	–	–	–
Weeks Group	♣	2⁵⁄₁₆	—	4¼	2¼	–	6.1	9.8
West 175 Ents	♣	45	—	87	45	–	–	–
West Bromwich Albion		£115	—	£145	£95	–	–	13.3
Western Select	♣Z	8½	—	13	7¼	–	3.7	28.2
Westpoint Energy	♣	18½	—	309	17½	–	–	φ
Willington	F	75	—	85	75	–	8.0	3.1
Winchester		64	—	84½	56½	–	–	33.5
World Telecom	♣	71	—	295	55	–	–	–
Xavier Computer		14¼	—	16	5½	–	–	13.8
Yeoman		58½	—	84	53½	–	–	φ

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols relating to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent (except where payment is due after 6/4/99 when no tax credit will be applied) and allow for the value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- φ Figures or report awaited
- ♥ Rule 2.1(a)(V) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of Suspension
- ; Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on assumed dividend
b Figures based on prospectus or other official estimates.
f Dividend/yield adjusted for complex issue
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excluding a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Dividend/yield includes amount payable after 6/4/99
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1998-99.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1999.
K Yield based on prospectus or other official estimates for 1999
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
R Dividend is paid in whole or part as a FID (Foreign Income Dividend)
P Dividend/yield adjusted for consolidation or share split
S Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xn ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1570 a year for each security shown, subject to the Editor's discretion

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FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 50p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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Call 0171 873 4378 for more information on FT Cityline.

For Retail Price Index details call 0891 43 0865

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

Bidders circle prey as takeover frenzy continues

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

The bid frenzy in London continued yesterday, with a mixture of reality and rumour driving stocks sharply higher, especially the news of fundamental restructuring in the French banking industry.

The takeover by Société Générale of Paribas, two of the most powerful French banks, and the potential for even more domestic and pan-European moves, ignited many of the UK banks. Analysts revisited the potential merger stories involving Barclays and NatWest, among others.

Adding to the increasing excitement in the financial sector was the confirmation of weekend reports that Axa, the French insurance group, had successfully mounted a strategic and tactical coup in getting Guardian Royal Exchange to agree to its last-minute bid.

Analysts and traders said the spate of bids and mergers in London and across Europe and the US had been the trigger for the most recent surge in stock markets and would continue in the short term.

"You can't take your eyes off the market for a second without more hard bids or bid approaches being announced; that is what is driving the market," said the head of trading at one London agency broker.

He acknowledged the other fundamental strengths affecting London, including the continuing influx of cash, aided by yesterday's mostly cash bid for Guardian Royal Exchange and Imetal's increased cash offer for English China Clays.

"That news adds to the upside pressure on the market; we all know that cash bids mean more instant upside pressure," he said.

And the most powerful driving force for the market, the prospect of more interest rate cuts, was another bullish factor. Yesterday's UK economic news added to the calls for another reduction.

The Chartered Institute of Purchasing and Supply said in its latest survey that the UK manufacturing sector was still weakening, a report which was seen as increasing the chances of a cut.

The US Federal Reserve's open market committee begins its regular monthly meeting in Washington today to determine US interest rates.

The Bank of England's monetary policy committee meeting starts on Wednesday, while Thursday sees the European Central Bank meeting in Frankfurt.

Most economists expect the Fed to leave US rates on hold; an ECB cut is a possibility; but a quarter-point reduction in UK rates is favoured by the majority of analysts.

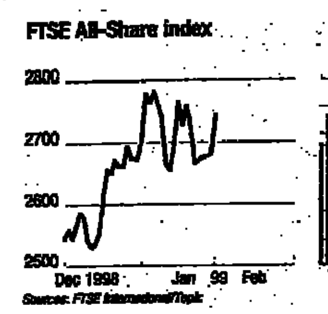
At the close, the FTSE 100 index had been catapulted through the 6,000 level, settling a net 116.4 ahead at 6,012.4, having run up to a session high of 6,045.0.

Dealers insisted, however, that the real excitement was being felt in the second-liners where the FTSE 250 shot up 97.6, or 2 per cent. "The bids will come thick and fast or this market will drop like a stone," said one.

The FTSE SmallCap was also driven by takeover hopes, and pushed up 23.4 to 2,154.6, although one sceptic continued to warn of the potential for more profit warnings.

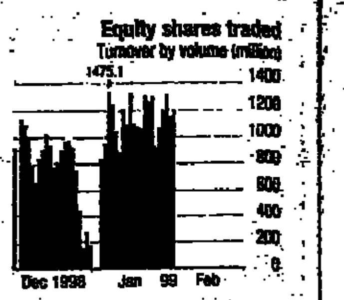
Turnover in equities ran up to 1.21bn shares.

FTSE All-Share index



Sources: FTSE International/Topic

Equity shares traded
Turnover by volume (million)



Indices and ratios

FTSE 100	6012.4	+116.4	FT 30	3638.7	+83.2
FTSE 250	5121.8	+97.6	FTSE Non-Fins p/e	24.02	23.54
FTSE 350	2847.4	+55.0	FTSE 100 Fut Mar	6020.0	+90.0
FTSE All-Share	2747.92	+51.98	10 yr Gilt yield	4.32	4.28
FTSE All-Share yield	2.83	2.90	Long gilt/equity yld ratio	1.52	1.48

Best performing sectors
1 Engineering ... +4.7
2 Building Matls & Merchs ... +4.7
3 Alcoholic Beverages ... +4.0
4 Construction ... +3.5
5 Breweries, Pubs & Rest ... +3.3

Worst performing sectors
1 Diversified Industrials ... -1.0
2 Oil Exploration & Prod ... -0.9
3 Electronic & Elect Equip ... -0.8
4 Water ... -0.4
5 Tobacco ... 0.1

Chemical reaction to bidders

COMPANIES REPORT

By Peter John, Martin Brice and Joel Kibazo

Chemicals bubbled higher as more takeover speculation in the sector was thrown into the crucible.

News that Albright & Wilson is examining several tentative bids prompted examination of the possible targets within the sector and the likely predators.

The shares rose 5 to 104½p with take-out targets ranging from 130p (Credit Lyonnais Securities) to 180p (Sutherlands). Possible buyers include Rhodia of France, Solutia and FMC of the US.

Dealers have also been looking increasingly closely at the portfolio managed by Phillips & Drew Fund Management. Tony Dye, P&D's chief investment officer, has been warning of a stock market correction since 1996 and has been a big buyer of "value" stocks.

Recently many of those stocks have performed so badly that they have become takeover targets. For example, P&D has stakes of above 20 per cent in Wace, Norcros, Sears and Mirror Group. It also has a 24 per cent stake in Brent International and 22 per cent of Hickson International. Brent was flat at 114½p and Hickson slightly easier at 42½p. Laporte, another seen as vulnerable, jumped 44 to 567½p.

Building materials group Caradon saw brisk trade of 4.3m as the stock put in a strong performance, prompting speculation that the company is close to announcing its long-awaited disposals programme. The shares rose 8¼ to 96p.

Elsewhere in the sector, receding fears of recession prompted buying of building materials stocks. BPB gained 20¼ to 230p while Hanson, boosted by an "oversold" comment from Panmure Gordon, rose 21 to 413¼p.

MidCap housebuilders were also a focus, with Berkeley rising 51 to 492½p and Beazer gaining 13 to 156p. Housebuilding stocks have priced in recession for much of the past year, but growing hopes that the UK economy will merely slow, rather than suffer recession, have seen some building-related stocks outperform recently.

News that France's largest bank, Société Générale, intends to take over rival Paribas revived the enthusiasm for consolidation within the UK financials.

However, the early morning enthusiasm that the French move would strengthen the desire of UK banks to enter the European "super league" was seen as something of a knee-jerk reaction and share prices eased in the afternoon.

Robert Law of Lehman Brothers said: "I don't think it alters very much. Results, bad debts and base rate movements are still the main drivers in the sector."

Barclays led the way forward with a 4 per cent gain in early trading. The shares were helped by newspaper reports that the bank is planning cost cuts in its retail banking operations of about £300m that are likely to lead to hundreds of job losses. Dresdner Kleinwort Benson reiterated its "add" stance on the stock.

The shares closed 31 up at £13.91 while National Westminster gained 39 to £11.55.

Royal & Sun Alliance rose 21¼ to 483¼p on relief that the insurer was not to acquire Guardian Royal Exchange. Commerzbank underlined the general mood. The broker upgraded the stock from "hold" to "buy", having previously said the rumoured 390p offer was too high and that GRE offered no strategic benefits to Royal.

Commerzbank also downgraded Axa's Sun Life Provincial from "buy" to "hold" after it was announced that the insurer had sealed an agreed £3.4bn acquisition of GRE. Sun Life fell 51 to 530p. GRE fell 6¼ to 361p.

Shares in Regent Inns rose 21 to 191p after it confirmed weekend press reports that it has started talks with SFI Group that could lead to a merger.

A joint statement from the two groups said their chief executives had "exchanged preliminary views on the merits of combining the two companies" and that formal merger talks would begin in the near future. SFI was also in demand and the shares appreciated 13 to 191½p.

Bass surges

A shortage of stock in hotels and drinks group Bass, which holds its annual meeting on Thursday, continued to drive the shares. They closed 50 up at 870p.

The market appeared to give the thumbs-up to food retailer Tesco after it said it was launching subscription-free internet access for 10m Clubcard households across the country. The shares hardened 4¾ to 192p in a busy session that brought turnover of 26m.

Dealers appeared to ignore fears in some quarters that the new service from Tesco may hurt business at Dixons, which also has a free internet service. Shares in the electrical goods retailer soared 29½ to £10.39¼. The group said it was to add a finance and investment channel to Freeserve, its free internet service, in the summer.

It was a mixed day for the other leading food retailers. A two-way pull in Asda Group brought volume of 16m as the shares edged ½ ahead to 164¾p, but sellers gained the upper hand in Somerfield, the shares closing 3½ lighter at 390½p.

Software group Lynx was up 5 at 190p following positive comments from Dresdner Kleinwort Benson. Mark Loveland at the broker told clients the price of the shares was "fundamentally too low". He set a price target of 350p for the end of this year and 420p for next and said: "Lynx has considerable upside."

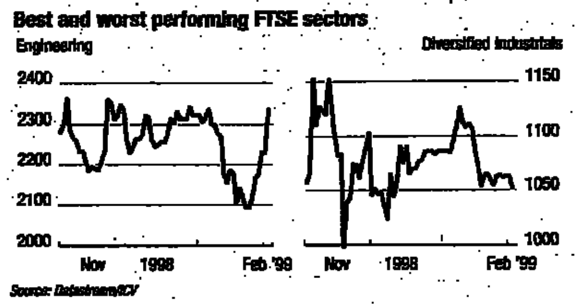
Shares in British Land jumped 19 to 460p in trade of 3.5m as several market specialists raised the prospect of the group spinning off its Broadgate development in the City of London.

Talk of such a move came after the company took a group of analysts on a tour of the Broadgate properties yesterday, although the company said nothing about such a move. Analysts said the tone had been "upbeat" and one said: "The company was positive about the City office market as well as the retail market. We got quite a lot of new information."

Other leading stocks in the sector were also in demand. Hammerson put on 17 to 374½p, and MEPC improved 21¾ to 415p. Land Securities appreciated 35 to 762p.

H Young Holdings, the sports-lifestyle products distributor, was off 1½ at 91p after the purchase of the Animal brand of accessories for no more than £1.9m.

Best and worst performing FTSE sectors



Source: Datastream/ICV

FT 30 INDEX

	Feb 1	Jan 29	Jan 28	Jan 27	Jan 26	Yr ago	*High	*Low
FT 30	3638.7	3555.5	3505.7	3498.4	3463.6	3409.9	4084.9	2790.6
Ord. div. yield	2.87	2.93	2.951	2.96	2.96	3.17	4.22	2.72
P/E ratio net	23.33	22.86	22.720	22.68	22.64	22.39	25.41	15.80
P/E ratio nil	23.24	22.77	22.628	22.58	22.55	N/A	25.19	15.71

FT 30 since compilation: high 4084.9 7/15/98; low 49.4 6/26/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3555.5	3615.8	3633.9	3639.0	3633.8	3644.2	3644.1	3632.3	3661.5	3555.5

STOCK MARKET TRADING DATA

	Feb 1	Jan 29	Jan 28	Jan 27	Jan 26	Yr ago
SEAQ bargains	85,334	72,724	72,192	68,429	66,292	n/a
Equity turnover (£m)†	-	4744.1	5304.8	5840.2	4528.3	n/a
Equity bargains†	-	61,160	60,392	58,034	57,351	n/a
Shares traded (m)†	-	1162.8	1316.4	1243.8	1152.4	n/a
Total market bargains‡	-	72,098	73,698	68,613	68,169	-
Total turnover (£m)‡	-	5837.8	6385.6	6786.9	5500.7	-
Total shrs traded (m)‡	1208.7*	1426.5	1579.3	1482.9	1370.5	-
Tradepoint turnover (£m)	32.9	25.4	37.9	38.4	48.7	24.4
Tradepoint shrs traded(m)	12.7	9.8	15.5	17.7	17.2	7.3

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	1,034	Total Highs	74	Total contracts	36,700
Total Falls	405	Total Lows	51	Calls	17,657
Same	1,430			Puts	19,043

Feb 1 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	5995.0	6030.0	+100.0	6060.0	5976.0	25734	164563
Jun	6055.0	6070.0	+101.5	6055.0	6035.0	50	15994
Sep	-	6113.0	+99.5	-	-	0	1550

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	5045.0	5110.0	+108.0	5062.0	5045.0	200	6924
Jun	-	5127.0	+108.0	-	-	0	390

■ FTSE 100 INDEX OPTION (LIFFE) (*6012) £10 per full index point — Feb 1

	5850 C	5850 P	5900 C	5900 P	5950 C	5950 P	6000 C	6000 P	6050 C	6050 P	6100 C	6100 P	6150 C	6150 P	6200 C	6200 P
Feb	284	89	248½	104	212½	120	182	141	153½	162½	124½	185½	104	215	83	245
Mar	377	197½	347½	218	317½	238½	287	259	257½	279½	225½	300	281½	327	181	355½
Apr	498	264½	426½	284½	396½	304½	365	324½	333	344½	301½	364½	272½	386	249½	416
May	541	343	610	361½	478	380	448½	398	418	418½	388	436	358	459½	338	487½
Jun†			558	406			512½	445½			449½	485½			381	532

Calls 1,139 Puts 1,325

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point — Feb 1

	5875 C	5875 P	5925 C	5925 P	5975 C	5975 P	6025 C	6025 P	6075 C	6075 P	6125 C	6125 P	6175 C	6175 P	6225 C	6225 P
Jan	258½	95	225½	111½	194	130	165	151	138½	172½	113	199	90	225½	70	255½
Feb	360½	208½	331	227	300	245½	270½	265½	241½	286½	217	311	188½	333½	167½	361
Mar	443½	278½	412½	287	382½	316½	352½	335½	325	357½	298	381	273	404½	246½	439
Jun			593½	412			488½	444½			438½	492½			384	535½
Sept			781½	520			644½	559½			595	606½			536	[illegible]

Calls 6,714 Puts 9,846 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998/9 High	1998/9 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	15.0	100	95	AIM VCT	100		-	-	-	-
-	F.P.	-	95½	88	Abbey Hall Dublin	88	-1	-	-	-	-
§	F.P.	35.5	123	116½	BFS O'seas Inc	118½		N12.65	-	10.7	-
§	F.P.	3.94	101½	56	Do Cap	98½	+1	-	-	-	-
-	F.P.	15.0	100	90	Close Bros Dev VCT	100		-	-	-	-
-	F.P.	-	146¾	83¾	Five Arrows Uts '40	107	+½	-	-	-	-
*	F.P.	38.9	7¼	7	Gander Properties	7		-	-	-	-
§	F.P.	47.2	99½	94½	Jupiter Enhanced	99	+1	-	-	-	-
§	F.P.	48.3	110	103¾	Do Zero Div Prf	108¾	+½	-	-	-	-
§	F.P.	15.0	100	100	Singer&Frd AIM VCT	100		-	-	-	-
§	F.P.	42.2	341½	192½	†Virtual Internet	210	-15	-	-	-	-
-	F.P.	26.7	97	87½	Yeoman II IT Inc	95½		N9.8	-	10.2	-
-	F.P.	8.77	8	4½	Do Cap	5¾	+½	-	-	-	-
-	F.P.	31.1	116½	102	Do Zero Div Prf	116½	+½	-	-	-	-
-	F.P.	-	101	95	Do Equity Units	100½	+½	-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Jan 29	% chg on day	Jan 28	Year ago	Gross div yield %	Total return	52 week High	52 week Low
Gold Mines Index (28)	932.15	2.9	905.66	1125.50	1.96	937.68	1351.57	701.58
■ Regional Indices								
Africa (8)	1028.75	2.7	1001.84	1216.02	4.01	1041.07	1488.04	785.83
Australasia (9)	1154.78	1.5	1137.88	1427.41	2.61	1165.18	1600.53	815.93
Americas (11)	865.64	3.3	837.58	1084.33	0.87	867.84	1317.41	647.69

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	£ Stlg Feb 1	Day's chge%	Euro Index	£ Stlg Jan 29	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	6012.4	+2.0	6804.8	5896.0	5599.0	2.70	2.32	1.90	24.31	2.33	2663.01
FTSE 250	5121.8	+1.9	5796.9	5024.2	4878.4	3.24	2.80	2.15	17.90	5.87	2230.79
FTSE 250 ex Inv Tr	5136.3	+2.0	5813.2	5035.5	4899.2	3.36	2.92	2.23	16.55	6.24	2247.14
FTSE 350	2847.4	+2.0	3222.6	2792.4	2559.4	2.79	2.39	1.95	23.03	1.44	2576.17
FTSE 350 ex Inv Tr	2853.1	+2.0	3229.2	2797.6	2665.2	2.80	2.41	1.98	22.79	1.44	1325.15
FTSE 350 Higher Yield	2592.2	+2.0	2933.8	2540.2	2686.6	3.97	3.38	1.85	17.08	1.36	2015.37
FTSE 350 Lower Yield	3121.7	+1.9	3533.1	3063.5	2667.9	1.67	1.45	2.18	34.43	1.52	2286.96
FTSE SmallCap	2154.56	+1.1	2438.54	2131.20	2384.66	3.75	3.10	2.10	15.88	3.87	1906.33
FTSE SmallCap ex Inv Tr	2111.69	+1.1	2389.99	2089.34	2370.39	3.99	3.31	2.23	14.06	3.79	1889.59
FTSE All-Share	2747.92	+1.9	3110.08	2695.94	2589.06	2.83	2.43	1.96	22.55	1.56	2525.51
FTSE All-Share ex Inv Tr	2757.59	+1.9	3121.02	2704.95	2596.95	2.85	2.44	1.97	22.23	1.54	1304.03
FTSE Fledgling	1194.13	+0.5	1351.51	1188.17	1298.51	4.16	3.38	1.37	21.88	1.83	1346.71
FTSE Fledgling ex Inv Tr	1199.28	+0.4	1357.33	1195.08	1316.13	4.78	3.88	1.42	18.47	1.95	1360.20
FTSE All-Small	1224.68	+1.0	1386.08	1212.89	1350.74	3.83	3.16	1.94	16.84	2.13	1383.19
FTSE All-Small ex Inv Tr	1223.76	+0.9	1385.05	1212.53	1367.87	4.15	3.42	2.04	14.76	2.16	1392.67
FTSE AIM	833.7	-0.1	943.6	834.9	975.1	1.28	1.02	0.94	80.00†	0.51	775.80

■ FTSE Actuaries Industry Sectors

	£ Stlg Feb 1	Day's chge%	Euro Index	£ Stlg Jan 29	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(18)	3781.65	+2.1	4280.04	3703.17	4435.12	3.83	3.34	1.18	27.75	0.47	1785.05
12 Extractive Industries(6)	2769.43	+0.5	3134.41	2756.76	3143.44	4.90	4.52	2.06	12.41	3.75	894.48
15 Oil, Integrated(3)	4398.76	+2.4	4976.22	4294.14	4871.13	3.70	3.20	1.06	31.82	0.00	2109.74
16 Oil Exploration & Prod(9)	1236.83	-0.9	1399.83	1247.61	3347.66	4.51	3.83	0.97	28.64	0.00	774.55
20 GEN INDUSTRIALS(191)	1835.33	+3.0	2077.22	1781.02	1909.80	3.97	3.54	2.26	13.95	1.90	1098.69
21 Construction(37)	1251.15	+3.5	1416.05	1208.32	1309.85	4.07	3.32	3.06	10.05	0.48	1135.49
22 Building Matls & Merchs(23)	1572.80	+4.7	1779.85	1501.85	1640.70	4.78	4.15	2.11	12.36	0.33	877.39
23 Chemicals(20)	1920.54	+3.1	2173.65	1863.22	2519.08	4.74	4.47	1.84	14.30	1.44	998.25
24 Diversified Industrials(4)	1051.96	-1.0	1190.60	1062.79	1294.43	6.23	5.49	1.08	18.57	5.26	671.01
25 Electronic & Elect Equip(25)	2867.95	-0.8	3245.24	2891.76	2181.33	2.67	2.27	1.99	23.54	0.00	1606.69
26 Engineering(54)	2335.20	+4.7	2642.96	2229.45	2545.67	4.13	3.70	2.27	13.34	5.23	1540.61
27 Engineering, Vehicles(10)	3885.28	+1.4	4397.32	3833.29	3342.66	2.31	2.12	3.23	16.76	0.35	2165.05
28 Paper, Pckg & Printing(18)	1631.73	+3.2	1846.78	1581.70	2006.35	6.40	5.95	2.36	8.27	2.42	754.76
30 CONSUMER GOODS(82)	6180.28	+2.1	6994.80	6051.26	5634.49	2.16	2.00	1.95	29.63	0.28	2472.04
32 Alcoholic Beverages(5)	3790.82	+4.0	4290.42	3645.12	3210.56	3.26	3.03	2.13	18.01	0.34	1519.81
33 Food Producers(26)	3540.43	+0.5	4007.03	3521.96	3451.17	2.54	2.20	2.31	21.38	0.10	1735.49
34 Household Goods & Texts(14)	2144.16	+2.0	2426.74	2102.48	3152.54	4.77	4.31	1.96	13.34	0.80	921.05
36 Health Care(14)	2465.11	+0.2	2789.98	2459.35	2418.43	2.10	1.93	2.11	28.29	1.36	1592.93
37 Pharmaceuticals(20)	11205.09	+2.6	12681.83	10925.07	10850.95	1.55	1.49	1.62	49.78	0.08	4037.96
38 Tobacco(3)	7721.93	+0.1	8739.62	7710.45	4831.49	4.07	3.71	2.23	13.76	0.00	2200.28
40 SERVICES(267)	3839.07	+2.0	4345.03	3762.41	2988.94	2.24	1.85	2.10	26.56	4.80	2138.64
41 Distributors(26)	1927.42	+1.7	2181.44	1895.87	2422.97	4.92	4.09	2.02	12.58	1.12	774.34
42 Leisure & Hotels(31)	3213.05	+0.5	3636.50	3198.17	3469.80	2.85	2.53	2.87	15.29	19.09	1846.78
43 Media(47)	5127.22	+1.9	5802.95	5030.50	3880.21	2.02	1.71	2.14	28.92	0.13	1959.80
44 Retailers, Food(13)	2793.82	+1.2	3162.03	2760.79	2893.62	3.26	2.62	2.17	17.64	4.19	1929.75
45 Retailers, General(42)	2115.15	+0.4	2393.91	2106.05	2276.05	3.53	2.84	2.09	16.95	5.33	1311.96
46 Telecommunications(7)	6272.46	+2.7	7099.12	6106.29	3229.97	1.43	1.18	1.39	54.90	4.13	3094.04
47 Breweries, Pubs & Rest.(23)	3782.12	+3.3	4280.57	3661.44	3735.00	3.33	2.70	2.21	17.00	12.60	1889.65
48 Support Services(59)	5185.29	+2.5	5868.67	5057.91	3920.46	1.21	1.03	2.82	36.73	0.81	3437.32
49 Transport(29)	3571.03	+2.2	4041.66	3494.82	2934.04	2.93	2.47	2.09	20.48	3.89	1614.15
60 UTILITIES(20)	4172.76	+0.3	4722.69	4160.06	3757.97	3.84	3.25	1.67	19.43	1.98	2030.93
62 Electricity(7)	4774.15	+0.5	5403.34	4749.45	4206.85	4.23	3.44	1.71	17.26	0.00	2951.97
64 Gas Distribution(2)	3393.37	+0.2	3840.58	3385.85	2912.77	1.99	1.59	‡	‡	0.00	1978.01
68 Water(11)	3268.96	—	3699.67	3270.13	3233.17	5.12	4.73	2.38	10.26	4.52	2063.67
69 NON-FINANCIALS(598)	2826.33	+2.1	3198.82	2769.22	2559.16	2.74	2.38	1.90	24.02	2.03	2334.10
70 FINANCIALS(120)	5124.32	+1.6	5799.67	5044.80	5426.95	3.19	2.64	2.18	17.98	0.27	2389.78
71 Banks, Retail(12)	7488.06	+1.1	8474.93	7403.58	8028.98	3.42	2.74	2.14	17.06	0.00	2854.71
73 Insurance(21)	2295.74	+2.2	2598.30	2246.76	2418.87	2.87	2.72	2.05	21.20	0.12	1925.01
74 Life Assurance(8)	8017.78	+2.2	9074.46	7846.10	6875.56	2.40	2.08	2.70	19.28	0.00	3814.37
77 Other Financial(31)	3704.69	+2.4	4192.93	3617.32	4078.18	2.98	2.47	2.53	16.55	0.87	2289.02
79 Property(48)	1705.91	+2.6	1930.73	1663.37	2330.64	3.88	3.12	1.61	21.28	0.97	1137.49
80 INVESTMENT TRUSTS(117)	3732.80	+1.3	4224.75	3685.53	3576.74	2.23	1.85	1.16	48.33	3.28	1374.32
89 FTSE All-Share(835)	2747.92	+1.9	3110.08	2695.94	2589.08	2.83	2.43	1.96	22.55	1.56	2525.51
105 FTSE All-Share ex Inv Tr(718)	2757.59	+1.9	3121.02	2704.95	2596.95	2.85	2.44	1.97	22.23	1.54	1304.03
Information Technology	1815.50	+4.0	2054.77	1746.12	1194.53	0.52	0.42	4.48	54.08	0.37	1825.46

■ Hourly movements

	9.03	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	5926.0	5978.9	6010.3	6010.3	6007.4	6021.4	6023.8	6006.7	6045.0	5896.0
FTSE 250	5042.2	5081.4	5082.0	5089.6	5106.3	5112.2	5110.2	5119.2	5122.1	5042.2
FTSE 350	2805.9	2828.7	2843.1	2844.6	2844.0	2850.2	2860.9	2844.9	2859.7	2805.9
FTSE SmallCap	2137.29	2139.67	2142.83	2146.15	2148.82	2149.51	2152.84	2153.74	2154.58	2133.72
FTSE All-Share	2708.78	2729.89	2743.27	2744.88	2744.40	2750.17	2751.10	2745.57	2758.95	2708.78

Time of FTSE 100 Day's high: N/A Day's low: N/A. FTSE 100 1998 High: 6179.0 (01/02/99) Low: 4648.7 (01/02/98)
Time of FTSE All-Share Day's high: 14:11:00 Day's low: 9:03:00. FTSE All-Share 1998 High: 2885.20 (20/07/98) Low: 2166.97 (05/10/98)

Further information is available on http://www.ftse.com.

 † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.
Deletions: Abacus Recruitment, NatWest Enterprise Trust (FTSE Fledgling).

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	1,700	824½	+8
AMVESCAP	3,300	542	+35
ASDA Group	16,300	164¾xd	+1½
Abbey National	2,000	1205	+11
Alliance & Leicester	3,100	778	+25
Allied Domecq	7,200	476	+7
[illegible]	[illegible]	[illegible]	[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Feb 1) 1 € = 13.7603 Sch

BELGIUM/LUX (Feb 1) 1 € = 40.3399 Frs.

FINLAND (Feb 1) 1 € = 5.94573 Mka

FRANCE (Feb 1) 1 € = 6.55957 Frs.

GERMANY (Feb 1) 1 € = 1.95583 Dm.

IRELAND (Feb 1) 1 € = 0.78756 Punt

ITALY (Feb 1) 1 € = 1936.27000 Lire

NETHERLANDS (Feb 1) 1 € = 2.20371 Fl.

PORTUGAL (Feb 1) 1 € = 200.48200 Esc.

SPAIN (Feb 1) 1 € = 166.38600 Pts.

EUROPE (NON-EMU)

CZECH REP (Feb 1 / Koruna)

DENMARK (Feb 1 / Kr)

GREECE (Feb 1 / Drachma)

NORWAY (Feb 1 / Kroner)

POLAND (Feb 1 / Zloty)

SWEDEN (Feb 1 / Kronor)

SWITZERLAND (Feb 1 / Frs.)

TURKEY (Feb 1 / Tk Lira)

PACIFIC

JAPAN (Feb 1 / Yen)

HONG KONG (Feb 1 / H.K.$)

INDONESIA (Feb 1 / Rupiah)

MALAYSIA (Jan 29 / MYR)

NEW ZEALAND (Feb 1 / NZ $)

SINGAPORE (Feb 1 / S$)

SOUTH KOREA (Feb 1 / Won)

TAIWAN (Feb 1 / TW $)

THAILAND (Feb 1 / Baht)

AUSTRALIA (Feb 1 / Aust$)

AMERICAS

CANADA

TORONTO (Feb 1 / Can $) 4 pm close

MONTREAL (Feb 1 / Can $) 4 pm close

MEXICO (Feb 1 / Peso) 12.30 pm

AFRICA

SOUTH AFRICA (Feb 1 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JANUARY 29 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY JANUARY 28 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	208.17	0.7	187.86	153.01	211.09	220.38	0.4	3.33	206.77	186.04	151.90	208.52	219.51	219.96	163.86	208.84
Austria (21)	172.47	0.6	155.64	126.77	154.32	154.32	1.1	2.28	171.52	154.33	126.01	152.63	152.63	253.73	165.27	194.17
Belgium (22)	402.52	-0.4	363.25	295.86	352.62	352.62	0.2	1.91	404.06	363.56	296.25	352.04	352.04	446.95	265.09	265.09
Brazil (32)	93.45	-2.7	84.33	68.69	94.76	354.34	3.9	2.55	96.02	86.39	70.54	96.83	341.10	289.34	89.32	223.34
Canada (116)	212.87	2.1	192.11	156.46	215.88	232.85	1.1	1.70	208.51	187.61	153.19	210.28	230.42	248.78	159.84	209.00
Denmark (34)	483.81	-0.7	436.61	355.61	490.59	430.95	-0.1	1.63	487.11	438.29	357.87	491.25	431.58	537.33	420.12	458.56
Finland (29)	633.80	-1.1	571.97	465.86	696.43	696.43	-0.5	1.44	640.67	576.46	470.68	700.14	700.14	661.25	300.59	300.59
France (75)	337.30	0.3	304.40	247.92	305.63	305.63	0.8	2.06	336.38	302.67	247.13	303.13	303.13	354.45	243.71	243.71
Germany (55)	277.31	0.6	250.26	203.83	248.30	248.30	1.1	1.31	275.68	248.03	202.52	245.48	245.48	325.61	226.35	235.32
Greece (36)	399.92	1.8	360.91	293.95	405.53	810.54	2.3	1.05	392.75	353.39	288.55	396.09	792.38	399.92	211.47	–
Hong Kong, China (67)	283.27	1.0	255.64	208.21	287.24	281.81	1.0	4.34	280.35	252.25	205.96	282.73	278.91	362.55	196.64	298.87
Indonesia (26)	46.93	4.5	42.35	34.49	47.59	257.67	2.3	1.19	44.89	40.39	32.98	45.27	251.98	64.52	19.04	44.11
Ireland (16)	553.88	-1.2	499.85	407.11	541.26	541.26	-0.6	1.82	560.38	504.21	411.69	544.63	544.63	605.85	396.15	416.72
Italy (53)	170.23	0.0	153.63	125.13	216.78	216.78	0.6	1.29	170.22	153.16	125.05	215.57	215.57	192.64	127.90	127.90
Japan (445)	101.02	1.4	91.16	74.25	102.43	74.25	1.5	1.01	99.58	89.60	73.16	100.43	73.16	109.73	76.83	107.09
Mexico (29)	1131.58	0.3	1021.28	831.80	1147.55	12571.13	0.1	2.04	1128.67	1015.55	829.20	1138.26	12556.21	1733.73	787.15	1500.60
Netherlands (26)	494.06	-2.0	445.85	363.14	437.58	437.58	-1.4	2.16	504.02	453.51	370.29	443.98	443.98	582.73	394.92	413.52
New Zealand (18)	64.44	1.7	58.15	47.37	65.35	63.56	0.9	4.59	63.38	57.02	46.56	63.91	62.99	77.84	45.68	74.96
Norway (37)	243.13	1.9	219.42	178.71	246.54	248.60	2.4	2.31	238.67	214.75	175.34	240.69	242.80	357.71	181.86	295.67
Philippines (22)	85.28	-2.8	76.97	62.69	86.49	163.65	-3.2	0.99	87.79	78.99	64.49	88.53	169.09	106.98	42.48	70.72
Portugal (18)	262.03	-0.7	236.47	192.60	316.63	316.63	-0.1	1.04	263.74	237.30	193.76	316.96	316.96	299.39	194.13	–
Singapore (41)	208.59	0.3	188.14	154.05	212.53	163.45	0.4	1.74	208.95	188.01	153.51	210.72	162.78	246.74	102.45	176.26
South Africa (38)	191.85	0.6	173.13	141.01	194.54	253.91	0.9	3.65	190.79	171.67	140.17	192.41	251.68	346.20	151.55	276.09
Spain (30)	389.65	-0.1	351.64	286.40	432.51	432.51	0.5	1.87	389.85	350.78	286.42	430.38	430.38	435.19	290.81	292.73
Sweden (44)	536.27	-0.1	483.96	394.17	543.79	619.64	0.6	1.85	536.59	482.81	394.22	541.15	616.10	628.19	379.18	477.33
Switzerland (30)	405.14	0.4	365.62	297.79	410.82	356.49	0.9	1.20	403.68	363.22	296.57	407.11	353.20	441.65	307.73	351.42
Thailand (34)	23.65	-2.6	21.34	17.38	23.98	33.92	-2.6	2.79	24.28	21.85	17.84	24.49	34.82	33.84	8.15	22.52
United Kingdom (208)	375.94	0.2	339.18	276.25	381.12	339.18	0.5	2.90	375.17	337.57	275.63	378.36	337.57	401.84	307.96	346.17
USA (615)	527.72	1.1	476.24	387.88	535.12	527.72	1.1	1.24	522.00	469.68	383.50	526.43	522.00	527.72	380.12	401.75
Americas (792)	467.90	1.1	422.25	343.91	474.46	397.45	1.1	1.26	462.75	416.37	339.97	466.68	393.13	467.90	347.59	363.62
Europe (732)	357.84	0.0	322.94	263.02	362.86	330.79	0.5	2.05	357.88	321.94	262.86	360.84	329.20	386.24	282.63	299.45
Eurobloc (345)	104.40	-0.2	94.21	76.73	101.17	101.17	0.4	1.71	104.59	94.10	76.84	100.80	100.80	113.92	81.53	–
Nordic (144)	517.39	-0.3	466.91	380.29	524.64	518.77	0.3	1.73	519.02	467.00	381.31	523.43	517.36	555.97	360.04	419.73
Pacific Basin (729)	108.23	1.3	97.67	79.55	109.75	82.47	1.3	1.52	106.83	96.13	78.49	107.74	81.40	119.48	82.88	113.82
Euro-Pacific (1461)	211.98	0.4	191.30	155.81	214.95	175.73	0.7	1.90	211.16	190.00	155.14	212.96	174.48	221.79	166.00	191.26
North America (731)	506.43	1.1	457.09	372.24	513.54	507.39	1.1	1.25	500.77	450.58	367.90	505.03	501.90	506.43	374.92	389.36
Europe Ex. UK (526)	336.33	-0.1	303.52	247.21	341.04	316.44	0.5	1.64	336.55	302.82	247.25	339.41	314.91	366.32	260.93	267.84
Europe Ex. Eurobloc (387)	96.80	0.2	87.36	71.15	98.16	96.77	0.6	2.41	96.59	86.91	70.96	97.41	96.19	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (181)	99.03	0.3	89.37	72.79	100.42	96.13	0.9	1.41	98.73	88.84	72.53	99.57	95.29	109.21	75.16	–
Pacific Ex. Japan (284)	179.45	0.8	161.94	131.90	181.96	183.82	0.6	3.57	178.04	160.20	130.80	179.56	182.73	216.04	128.26	182.96
World Ex. Eurobloc (1946)	107.93	1.0	109.08	93.98	109.04	106.29	1.0	1.52	106.49	107.68	93.02	107.40	105.19	108.05	83.09	–
World Ex. US (1676)	211.26	0.4	190.65	155.28	214.22	180.88	0.8	1.91	210.32	189.25	154.52	212.11	179.54	221.91	165.95	194.15
World Ex. UK (2083)	307.15	0.9	277.16	225.76	311.46	275.23	1.0	1.40	304.32	274.00	223.72	307.11	272.54	311.48	236.11	252.92
World Ex. Japan (1846)	418.61	0.7	377.78	307.69	424.46	409.84	0.9	1.61	415.60	373.95	305.33	419.13	406.39	427.99	320.58	338.07
The World Index (2291)	313.12	0.8	282.58	230.15	317.51	281.27	0.9	1.55	310.65	279.52	228.23	313.29	278.66	318.51	242.36	260.82

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Emerging markets:

IFC investable indices

Dollar terms

Jan 29 Market		Day's chg %	% Chg since 31/12/98
Latin America			
Argentina	734.72	+1.7	-7.9
Brazil	194.47	-2.1	-29.3
Chile	438.31	-0.5	-2.9
Colombia[1]	352.71	-0.8	-19.7
Mexico	476.12	+0.2	-1.1
Peru[2]	131.21	+1.5	-2.4
Venezuela[3]	386.99	+1.5	-14.6
East Asia			
China[4]	22.85	+1.0	-12.7
India[7]	89.47	+0.5	+8.2
Indonesia[6]	22.16	+3.7	-8.5
Korea[5]	53.31	-0.1	+0.6
Malaysia	92.95	-0.9	+5.0
Pakistan[9]	84.83	-2.2	-10.3
Philippines	118.04	-2.8	-4.1
Sri Lanka[10]	73.83	+1.0	-10.4
Taiwan, China[8]	111.44	-1.1	-3.8
Thailand	63.35	-1.2	+0.3
Europe			
Czech Rep	48.23	-0.7	-5.0
Greece	710.41	+1.6	+14.7
Hungary[11]	294.47	+0.8	+4.9
Poland[12]	570.19	+3.8	+8.9
Portugal	296.84	-1.1	+1.6
Russia	22.32	+1.1	-4.8
Slovakia	43.99	-0.9	+0.9
Turkey[14]	138.38	+1.4	-5.4
Mideast/Africa			
Egypt	78.41		+21.6
Israel	101.72	+0.1	-0.5
Jordan	224.60	-0.1	+3.7
Morocco	176.30	-0.0	+5.2
S Africa[13]	131.70	+0.4	+5.2
Zimbabwe[15]	105.68	+2.1	+0.3
Regions			
Composite	181.74	+0.1	-2.7
Latin America	369.32	-0.3	-12.0
Asia	104.62	-0.3	-2.2
EMEA	120.33	+0.6	+5.3
Europe	158.06	+0.8	+5.5
Eastn Europe	59.97	+1.6	+3.2
ME & Africa	56.32	+0.3	+5.0
Comp + Malay	185.42		-2.2
Asia + Malay	107.26	-0.4	-0.7

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.
Latest indices were unavailable for this edition.

Prices supplied by Telekurs, part of FT Information.

4 pm close February 1

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

52 Week High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Price	Chng
128	85⅛	Xerox	1.60	1.3	24	8654	123	120⅞	122½	[illegible]
65⅛	37½	Xtra Corp			10	301	47⅝	46⅝	47	[illegible]
31⅛	22½	Yankee Egy	1.38	5.0	22	82	27⅝	27¼	27½	[illegible]
52¼	27½	York Int	0.48	1.3	21	1024	[illegible]	[illegible]	[illegible]	[illegible]
24⅞	6⅛	Zapata			3	380	11¼	10¼	10¾	[illegible]
30½	20⅝	Zenith Nat x	1.00	4.4	10	53	23⅛	22¾	22⅞	[illegible]
8⅞	5⅝	Zweig Inc x	0.78	11.5		131	6⅞	[illegible]	[illegible]	[illegible]
14⅞	8⅝	ZweigFd	1.08	10.2		508	10¼	[illegible]	[illegible]	[illegible]
9⅞	8⅛	Zweig Tot	0.84	9.7		628	8⅝	[illegible]	[illegible]	[illegible]

Price data supplied by Telekurs, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
§ Dealings suspended.

مكرر من الاهل

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Jan 29	Jan 28	Jan 27	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9358.83	9281.33	9200.23	9643.32 (8/1/99)	7539.07 (31/8/98)	9643.32 (8/1/99)	41.22 (8/7/32)
Home Bonds	106.45	106.68	106.45	107.17 (9/12/98)	104.42 (11/5/98)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3202.37	3079.33	3089.10	3686.02 (16/4/98)	2345.00 (8/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	302.80	303.19	303.82	320.51 (8/10/98)	282.86 (9/1/98)	320.51 (8/10/98)	10.50 (8/7/32)

DJ Ind. Day's high 9457.18 (9304.83) Low 9172.16 (9134.57) (Theoretical) Day's high 9383.26 (9301.15) Low 9224.17 (9203.57) (Actual)

Standard and Poors	Jan 29	Jan 28	Jan 27	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1279.64	1265.37	1243.19	1279.64 (29/1/99)	927.69 (8/1/98)	1279.64 (29/1/99)	4.40 (1/6/32)
Industrials‡	1551.65	1536.78	1508.27	1551.65 (29/1/99)	1077.40 (9/1/98)	1551.65 (29/1/99)	3.52 (30/6/32)
Financial‡	132.73	129.97	127.32	147.89 (14/7/98)	95.80 (8/10/98)	147.89 (14/7/98)	7.13 (4/8/74)
Others							
NYSE Comp.	600.44	595.40	588.08	611.08 (8/1/99)	477.20 (8/10/98)	611.08 (8/1/99)	4.64 (25/4/42)
Amex Comp	714.86	713.93	707.19	753.67 (22/4/98)	563.75 (8/10/98)	753.67 (22/4/98)	524.20 (16/7/95)
NASDAQ Cmp	2505.89	2477.34	2407.14	2505.89 (29/1/99)	1419.12 (8/10/98)	2505.89 (29/1/99)	54.87 (3/10/74)
Russell 2000	437.22	423.97	421.12	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.36 (7/12/93)

■ RATIOS

	Jan 29	Jan 22	Jan 15	Year ago
Dow Jones Ind. Div. Yield	1.64	1.67	1.64	1.74
	Jan 20	Jan 13	Jan 6	Year ago
S & P Ind. Div. yield	1.12	1.14	1.11	1.47
S & P Ind. P/E ratio	36.80	37.95	39.11	25.31

US DATA

■ MARKET ACTIVITY

● Volume (million)	Jan 29	Jan 28	Jan 27
NYSE	917.080	852.410	414.279
Amex	29.855	28.304	25.046
NASDAQ	1063.46	1021.68	1042.17

NYSE	Jan 29	Jan 28	Jan 27
Issues Traded	3,559	3,515	3,533
Rises	1,705	1,552	1,052
Falls	1,332	1,422	1,942
Unchanged	522	541	539
New Highs	180	68	53
New Lows	92	88	75

■ NYSE TRADING ACTIVITY — Volume : 917,080,800

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
ServCp	17,328,800	15⅞	−2⅛
Compaq	15,020,900	47¾	+⅞
Global Mar	11,474,700	8⅛	−⅛
Disney	8,498,800	33	−½
Fst Union	8,183,200	52¾	+⅜
AmOnLine	8,019,800	175⅛	+1½
Citigrp	7,719,600	55⅛	+⅛
PhMorr	7,404,400	47	−1⅛
Gillte	6,974,000	58¾	+1⅞
AT&T	6,259,800	90¼	+⅞

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
ProEgy	15¼	+3⅜	+28.1
CECEnt	28⅝	+5⅛	+20.7
LSI Lg	27⅜	+4⅛	+17.4
Teradyne	65¾	+7⅛	+12.8
Downs			
ServCp	15⅞	−2⅛	−12.1
Hrybey	56¾	−7⅞	−12.0
OwensIll	13⅝	−1⅛	−8.8
Coca Store	16⅞	−1¼	−8.5

■ NASDAQ TRADING ACTIVITY — Volume :1,063,460,000

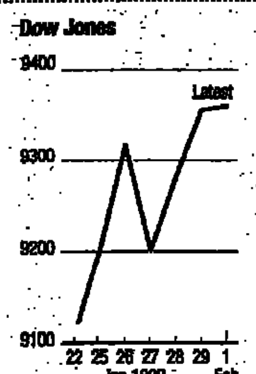
■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
DellCmp	36,400,800	100	+5⅞
PeoplSoft	20,460,600	19⅞	−2¼
MicsR	19,604,000	175	+1
CiscoSys	18,532,500	117⅛	+2⅞
Intel	14,269,100	140⅞	+3¾
Miller H	13,605,600	18⅞	−5⅛
ApplMat	12,832,400	63⅛	+4⅛
Oracle	10,985,700	55¾	+1⅜
MCIWcm	10,847,500	78¼	−½
E trade	8,201,400	110¾	+10⅝

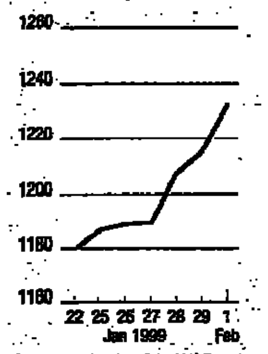
■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Collagen A	13	+3⅛	+31.6
P-Com	10⅛	+2	+24.6
Synalloy	11⅛	+2⅛	+23.6
AmeriTrade	80¼	+13⅝	+20.2
Downs			
Miller H	18⅞	−5⅛	−21.1
CYTYC	19¾	−4⅝	−18.6
Intervoic	10⅞	−2⅛	−17.8
SecDynm	20⅞	−4⅛	−16.3

Dow Jones



FTSE Eurotop 300



JAPAN

	Feb 1	Jan 29	Jan 28	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Nikkei 225	14465.18	14499.25	14342.32	17264.3	12880	38915.9	85.25

Day's high: 14641.41. Day's low: 14358.30.

■ TOKYO TRADING ACTIVITY — Volume : 310,780,000

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
FluroseE	6,492,000	532	+32
Tshiba	6,009,000	768	+5
YasTrB	5,843,000	106	−8
Nomura	5,762,000	875	−39
ShokJt	5,704,000	93	−9
NpStl	5,293,000	208	+2
Sakura	4,807,000	273	−11
Hitachi	4,745,000	815	−20
Haseko	4,684,000	46	−1
YkhmBk	4,134,000	235	+2

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
JnSewM	160	+30	+23.1
RkyTrn	544	+43	+8.6
KDD	4340	+340	+8.5
TakDsc	84	+6	+7.7
Downs			
ShokJt	93	−9	−8.8
Tsgami	167	−16	−8.7
Calsnc	325	−29	−8.2
Daiei	298	−22	−6.9

FRANCE

	Feb 1	Jan 29	Jan 28	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
CAC 40	4303.92	4251.80	4199.67	4388.48	2882.54	4388.48	894.81

Day's high: 4354.29. Day's low: 4263.58.

■ PARIS TRADING ACTIVITY — Volume : 780,928,590

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Paribas	3,346,902	92.15	+8.15
FrTele	2,973,120	86.8	+3.9
Usinor	2,460,849	11.8	+0.65
BNP	2,001,127	78	−1.95
SocGen	1,808,100	153	−5
Axa	1,558,550	126.6	−1.2
RbonPA	1,328,887	47.5	+1.2
Alstom	1,175,968	21.89	+0.84
TotalB	992,511	92	+2.5
Rnault	985,977	40.3	+0.3

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Imetal	110.8	+14.8	+15.4
Paribas	92.15	+8.15	+8.7
Epeant	76	+5	+7.1
CrFonF	13.3	+0.8	+6.4
Downs			
GzEaux	42.09	−2.11	−4.8
Cergrs	41.1	−1.9	−4.4
PrnRc	53	−2.4	−4.3
NrdEst	23	−1	−4.2

GERMANY

	Feb 1	Jan 29	Jan 28	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DAX	5190.82	5159.86	5098.41	6171.43	3896.08	6171.43	931.18

Day's high: 5287.98. Day's low: 5190.82.

■ FRANKFURT TRADING ACTIVITY — Volume : (b)

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Bayer	588,763	33.05	−0.6
Siemens	557,763	63.7	+1.15
Dt Bk	465,919	50.1	+0.25
DmlrCh	449,976	91.6	−0.1
Dt Tel	441,138	40.5	+0.5
H'chst	438,152	39.85	+1.55
Cmmzbk	438,051	26.5	+0.2
Lufthn	410,600	19	+0.45
BASF	404,806	31.3	−1.2
BayHyV	394,718	53.1	−4.1

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Dt Bab	59.5	+6.1	+11.4
GEA Pf	21.1	+1.35	+6.8
Praeug	478.5	+28.5	+6.3
Schrng	125.6	+6.95	+5.9
Downs			
KSB Pf	112	−10.5	−8.6
BayHyV	53.1	−4.1	−7.2
SchLub	98	−7	−6.7
DEPFA	79	−5	−6.0

UK

	Feb 1	Jan 29	Jan 28	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
FTSE 100	6012.4	5896.0	5872.5	6179	4648.7	6179	986.9

Day's high: 6045.0. Day's low: 5898.0.

■ LONDON TRADING ACTIVITY — Volume : 1,208,799,800

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Unilever	38,289,140	609½	+2½
Siebe	34,733,460	229¾	+24½
Tesco	26,947,990	192	+4¾
Pilkington	26,780,120	64½	+5
Shell	24,415,600	309¼	+5
Corporate Svc	18,180,460	140½	+3½
BTR	18,086,050	123	+14¼
LucasVarity	17,726,290	289½	−½
Br Steel	16,402,870	130¼	−3½
ASDA	16,343,020	184¾	+1¾

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Stentor	23½	+6	+34.3
Tetra	243½	+56	+29.9
Delphi Grp	485	+110	+29.3
Aukett As	9¼	+2	+27.6
Downs			
Rewin Plc	1½	−¾	−33.3
Worthington Gp	30	−14	−31.8
Sys Int Res	33½	−9	−21.2
Jacques Vert	13½	−3½	−20.6

INDEX FUTURES

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	1280.50	1288.30	+6.80	1290.00	1280.00	106,305	393,880
Jun	−	1293.50	−	−	−	174	7,419
■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	14570.0	14480.0	−150.0	14670.0	14350.0	27,242	195,684
Jun	14490.0	14320.0	−110.0	14500.0	14250.0	1,135	31,380

Open interest figures for previous day.

■ CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jan	4305.0	4323.0	+36.8	4382.0	4298.5	52,323	112,588
Feb	4320.0	4331.5	+71.5	4381.0	4250.0	4,847	61,438
■ DAX							
Mar	5294.0	5270.5	+73.0	5312.5	5233.0	48,933	175,259
Jun	5300.0	5299.0	+78.0	5309.0	5269.5	4,875	47,742

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Feb	730.00	736.50	+10.75	738.00	728.00	20,782	166,565
Mar	730.00	730.00	+10.75	735.00	727.00	96	1,036
■ EUREX							
Mar	7310.0	7309.0	+80.0	7368.0	7265.0	19,883	122,328
Jun	7251.0	7256.0	+72.0	7302.0	7250.0	162	3,913

WORLD MARKETS AT A GLANCE

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THE NASDAQ-AMEX MARKET GROUP

4 pm close February 1

[illegible]

AMEX

4 pm close February 1

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EASDAQ

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STOCK MARKETS

Takeovers help bulls buck Bronco legend

WORLD OVERVIEW

Takeover activity, one of the most important factors behind the global stock market recovery of late 1998, was once more responsible for improving investor sentiment yesterday, *writes Philip Coggan*.

The planned link-up between Société Générale and Paribas of France, and the agreed takeover by Axa of British insurer Guardian Royal Exchange, caused a flurry of excitement in financial stocks.

European bourses got a particular lift from the news, with investors turning their mind to the prospects of further consolidation within the banking sector. The Dax in Frankfurt and the CAC 40 in Paris each gained more than 1 per cent.

Wall Street had a rather more mixed opening with a stronger-than-expected report from purchasing managers for January being badly received by the bond market.

The Federal Reserve open market committee begins a two-day meeting today, but few analysts expect a rate change, especially after last Friday's strong fourth-quarter gross domestic product numbers.

Later in the week, the European Central Bank and Bank of England will also announce rate decisions, with the best chance for a cut being in the UK.

Hopes of interest rate reductions, and the never-ending takeover round, managed to keep most stock markets moving ahead in January, despite worries about slowing economic growth and corporate earnings.

According to figures from FTSE International, Brazil achieved a rare double in January, producing the best performance of a stock market in local currency terms – up 20 per cent – but, thanks to the devaluation of the Real, the worst performance in dollar terms – down nearly 30 per cent.

Greece, which some investors hope is on course to join the euro, was the best performer in dollar terms, gaining 15 per cent.

The so-called January indicator – the theory that "as January goes, so goes the year" – should have been an encouraging sign for the US equity market, given that Wall Street showed a net gain in the first month of 1999. In the US, the indicator has made an accurate prediction 90 per cent of the time since 1950.

But the superstitious could also point to the Superbowl indicator, a discouraging omen for the bulls. Legend has it that, if an AFC team wins, the market will fall; the Denver Broncos of the AFC triumphed on Sunday. However, Denver also won the Superbowl in 1998 and the market marched higher regardless.

Wall St wary ahead of Fed rate meeting

AMERICAS

Wall Street began February with a mixed early session as investors got behind blue-chip and high-tech stocks, but turned away from the broader market, *writes John Labate in New York*.

Trading was mainly cautious ahead of the first meeting of the year for the Federal Reserve's open market committee to decide interest rate policy. While few on Wall Street expect the Fed to make a move, it comes near the end of the quarterly earnings season when investors are looking for new direction.

By early afternoon the Dow Jones Industrial Average of blue-chip shares had risen 35.53 to 9,394.36 while the broader Standard & Poor's 500 index 500 index was off 2.86 at 1,276.78. Higher internet and computer shares helped raise the Nasdaq composite 6.53 to 2,512.42.

Merger announcements continued. Morton International surged $9¾ to $35¾ after news that specialty chemicals company Rohm and Haas would acquire it for $4.9bn.

In telecoms, Bell Atlantic fell $1¼ to $58¾ despite a raised price target by Lehman Brothers. In the Dow, Hewlett-Packard gained $2 11/16 to $81 9/16. Shares of AT&T surged $2 11/16 to $93 1/16 after British Telecom said it was considering a venture with the US leader.

Airline stocks continued to surge after last week's decision by a handful of carriers to raise fares. Continental Airlines rose 6.8 per cent or $2 3/16 to $40 11/16 after BT Alex Brown raised its rating to "strong buy" from "market perform". AMR, parent of American Airlines, climbed $1¾ to $60¼.

Northrop Grumman surged $5 or 8.8 per cent to $62 after PaineWebber raised its rating of the defence contractor to "buy" from "neutral".

Online brokerage stocks surged in active trading. E*Trade climbed 16 per cent to $64⅝ and Ameritrade gained more than 23 per cent to $99¾. But Charles Schwab gained just $7/16 to $70¾ after the company's online division raised margin requirements for certain stocks.

Small company shares were mixed, with the Russell 2000 index up less than one point at 427.31.

TORONTO continued to gain ground as further advances for banks and golds kept the benchmark indices on a rising trend. The 300 composite index was up 32.74 at 6,762.30 at noon.

Royal Bank of Canada rose 80 cents to C$78.90 and Bank of Montreal gained 75 cents at C$67.50. Bank of Nova Scotia added 45 cents at C$32.95. In golds, sector leader Barrick put on 30 cents at C$29.15.

Cable group Rogers Communications shot up C$1.85 to C$23.10 and internet shares remained a firm feature in spite of recent high-profile warnings about overvaluations. Bid.Com International gained 50 cents to C$7.60.

Alcan Aluminium lost 35 cents at C$38.50 and Seagram, the drinks and entertainments giant, came off 90 cents at C$71.10.

Telecoms, a notably firm market lately, ran into profit-taking with Northern Telecom sliding C$1.70 to C$94.

Alliance plan activates banks

EUROPE

Bank shares had a hyperactive session following the news that Société Générale and Paribas, two French financial heavyweights, planned to forge themselves into the world's fourth largest bank.

German, Spanish, Italian and Dutch banks all moved higher as a heightened round of consolidation talk among brokers and investors gripped the sector.

In Paris, the trading pattern was more mixed. Paribas, for example, ended €8.15 or 9.7 per cent higher at €92.15 after hitting a session peak of €97. SocGen, which is taking over Paribas via a share deal, ended off €5 at €153. BNP also lost ground, easing €1.95 at €78.

The FTSE Eurotop 300 index rose 17.43 or 1.44 per cent to 1,232.33. See Euro Prices page.

In Frankfurt, Deutsche Bank shot up €1.49 before settling 85 cents higher at €50.55. Dresdner added 70 cents at €36.30 and Commerzbank 50 cents at €26.80. Dutch leader ABN Amro rose 45 cents to €17.55.

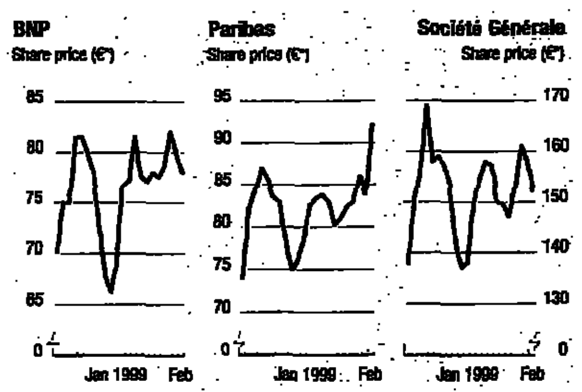
Axa-UAP's acquisition of UK composite insurer Guardian Royal Exchange helped keep the financial pot bubbling, as did Goldman Sachs' reiterated positive stance on German banks, suggesting the sector had an upside potential of more than 30 per cent.

Switzerland's UBS put on SFr10.50 to SFr469.50 as it replaced Deutsche Bank on Lehman Brothers' recommended list. CS Group was SFr1.25 higher at SFr227.25.

Italy's BCI put on 29.5 cents to €5.86 on comments by the chairman of BCI shareholder Deutsche Bank that the Milan-based bank would be a good partner.

In Madrid, the French alliance helped Argentaria close €1.17 or 5.2 per cent higher to €23.73. Popular gained €1.65 to €64.65.

The enthusiasm extended neither to Santander, down 36 cents to €16.30, nor to BCH, 18 cents lower at €9.98, since their own merger plans put them out of the M&A picture. BBV, which announced improved earnings, lost 8 cents to €13.10.



Source: Datastream/ICV • Historical data translated into euros using locked-in rate of 31/12/98

FRANKFURT improved 59.31 to 5,239.60 on the Xetra Dax index after touching a session best of 5,292.74.

Insurance shares were strong in the wake of the latest deal in the European sector. Munich Re added €9 at €228 and Allianz €8.46 at €333.46. BMW stood out in a generally dull motor sector, gaining €5.60 at €628.60.

AMSTERDAM gained 7.92 to 540.01 on the AEX index, helped by strong gains for ING and a bounce for KLM ahead of today's third-quarter results.

The airline rose 85 cents to €24.30 while ING led a broad rally for financials. It gained €2.80 or 5.5 per cent to €54.10 while Aegon put on €1.90 at €98.60.

ZURICH was enlivened by the activity in its banking sector and the SMI index finished 90.0 higher at 7,291.2.

Among other movers, Novartis rose SFr41 to SFr2,697 and Nestlé was SFr45 higher at SFr2,640. Both shares were seen to have lagged behind the market after disappointing revenue figures last month.

MILAN rose 287 to 23,998 on the Mibtel index although volumes were low. Banks held centre stage but there was interest in other sectors. ENI put on 22.1 cents to €5.44, supported by slightly firmer crude oil prices.

Fiat had a volatile day as consolidation elsewhere in the European motor industry continued to raise expectations that the Italian group would announce a major alliance. The shares finished 7.9 cents higher at €2.88 in spite of Friday's warning of lower profits for 1998.

Luxury goods group Bulgari, however, dropped 32.3 cents to €5.26 after a downgrade by CSFB and a cut in its target price to €5.

STOCKHOLM gained on the back of a rally in Ericsson and further focus on vehicle maker Volvo. The general index closed 43.45 higher at 3,350.26.

Ericsson jumped SKr12 to SKr223 after last week's 1998 results that proved largely in line with expectations, and news of its new mobile phone platform. Analysts said the stock was rising on the view that it looked cheap compared with Nokia.

Transport group BTL surged SKr11.70 to SKr44.70 after the German Stinnes group said it would offer to buy all the outstanding BTL stock for SKr45 per share.

Volvo picked up SKr7 to SKr219.50 on the view that the share looked cheap after last week's announcement that it was selling its car division to Ford for SKr50bn.

HELSINKI was dragged lower as Morgan Stanley cut its rating on telecoms giant Nokia, down €7 to €121.50. The Hex index fell 106.74 or 1.7 per cent to 6,069.03.

PARIS rose to a six-month high as the CAC-40 gained 52.12 to 4,303.92, mainly lifted by financial stocks.

Axa-UAP ended €1.20 lower at €126.60 after it said Guardian Royal Exchange had accepted its £3.6bn cash and share offer. Some analysts said this might be a deal too far for the acquisitive insurer after a string of M&A announcements last year.

Accor rose €10 or 5.6 per cent to €190 after release of hotel occupancy figures for 1998, up to 68.4 per cent from 65.9 per cent a year ago.

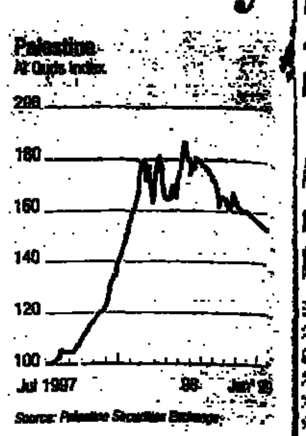
France Telecom rose €3.90 to €86.80, accounting for nearly half the CAC-40's rise. Analysts attributed gains to continuous buying by institutions trying to match the utility's heavy weighting in European indices.

Written and edited by Michael Morgan, Jeffrey Brown, Peter Hall and Bertrand Benoit

EMERGING MARKET FOCUS

Symbolic index faced by reality

These are not easy times for the Palestine Securities Exchange. As it prepares to celebrate its second birthday, traders, and indeed Suleiman Abbadi, recently appointed its new general manager, may find little reason to cheer.



Source: Palestine Securities Exchange

The PSE was established as much as a symbol of Palestinian sovereignty as a way for establishing a viable financial system.

However, Palestinian traders and the business community in neighbouring Jordan have been disappointed with its performance.

Average monthly turnover since September has hovered around $8m compared with $16.7m in March. The Al-Quds index has never looked like returning to last June's peak of 185. By the close of trading on Sunday – the exchange is open twice a week – the index was at 153.24 and turnover was just $389,044.

Investors have stayed away from the PSE for a number of reasons. The Israeli-Palestinian peace process has all but collapsed. With no free movement of goods, services and people from the Palestinian-controlled areas of the West Bank and Gaza to the outside world, investors believed the risks were simply too high.

Yet given such an environment, investors had hoped Yassir Arafat's Palestinian Authority would have tried to make the PSE more attractive. They have been disappointed.

Since the exchange was set up in February 1997, traders have been waiting for the Palestinian finance ministry to set up a regulatory body for the PSE.

"We kept asking and we kept waiting for the ministry to do something," said one trader. "Nothing happened."

The trader said a regulatory body would make the PSE more transparent and attractive to potential investors. It would, he added, provide a legal framework.

"Such a regulator is crucial because the Palestinian Authority has a reputation for corruption among local investors and the diaspora," said an investor.

Liquidity is another drawback. The PSE's market capitalisation is $600m, with services and banking making up 90 per cent of the volume of 20 listed shares. Traders and businesses believe more could be done for liquidity by the PA implementing privatisation.

"The PA is dragging its feet by not drawing up adequate investment or banking laws. And it refuses to dismantle its monopolies, such as in cement and telecommunications," said a Palestinian businessman.

To complicate matters, the PA is active on the PSE through its subsidiaries, which include the Palestine Development and Investment Company and Palestine Telecommunication Company (Paltel). Of the 10 leading stocks, Paltel, a monopoly, accounts for 50 per cent of their market capitalisation.

"The PA is crowding out the private sector," said a Palestinian official. "Until the PA changes its ways, investors will be hesitant about coming."

Judy Dempsey

São Paulo advances as Real steadies after fall

SAO PAULO opened higher as the Real stabilised at R$1.97 to the dollar, recovering from its sharp decline through the R$2.00 level on Friday.

The Bovespa index rose 305 or 3.73 per cent to 8,476 at midsession amid hopes that the stronger Real would help ongoing talks between the government and IMF over the release of a $41.5bn rescue loan agreed last year.

CARACAS strengthened, with the IBC index up 143.04 to 4,328.22 at midsession, buoyed by a rise in oil stocks and assurances by Hugo Chávez, Venezuela's new president, that he would fight inflation and falling oil prices.

MEXICO CITY was little changed as the peso resumed its rise amid renewed optimism about Brazil.

The IPC index gained 14.62 to 3,972.55 in the morning session.

Profit-taking curbs Jo'burg

SOUTH AFRICA

Johannesburg made a spirited start, helped by better-than-expected money supply and credit extension figures for December that raised hopes for another cut in interest rates.

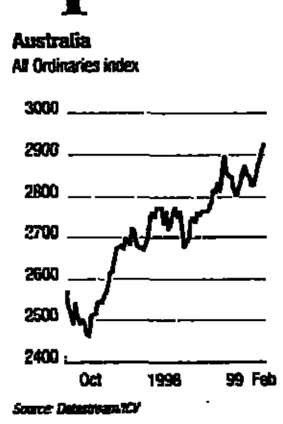
However, prices later lost some of their edge to close only modestly firmer, weighed down by profit-taking and a fall in the mining sector.

The overall index finished 25.2 higher at 5,824.3 while rate-sensitive financials picked up 68.5 to 9,051.6 and industrials rose 45.2 to 6,765.2. Golds closed 6.8 firmer at 941.3.

Results optimism lifts Sydney

ASIA PACIFIC

Economic and corporate results optimism got firmly behind **SYDNEY**, lifting the All Ordinaries index to a record high as bank and telecoms blue chips made amends for further weakness among resource stocks.



Source: Datastream/ICV

The benchmark rose 29.9 or 1 per cent to 2,923.7 in good two-way volume. Wall Street's gains on Friday combined with last week's positive Australian inflation data to boost sentiment ahead of the company results season.

Banks were in the thick of the action after strong results from sector leader NAB last week. Westpac jumped 27 cents to A$11.27. In telecoms, Telstra rose 51 cents to a record close of A$9.15. In media, News Corp gained 35 cents to A$11.87.

In resources, BHP came off 6.4 cents at A$11.62 and Rio Tinto 9.4 cents at A$19.30.

TOKYO retreated from early highs to end slightly lower as investors took profits on cross-shareholdings ahead of the fiscal year-end on March 31, *Reuter reports*.

Some traders said the market was also dented by doubts over the feasibility of government plans to set up a body by the end of March that would buy stocks to allow the unwinding of corporate cross-shareholdings.

The Nikkei 225 average closed 34.07 lower at 14,465.18. Broader indices were also lower. The Nikkei 300 index lost 1.70 at 222.88 while the Topix index gave up 5.89 at 1,119.37. Trading volume fell to 310.8m shares on the first section from Friday's 445.3m shares.

Declining issues outnumbered advancers 562 to 546, with 177 issues unchanged.

The market started with a firm tone, due mainly to buying in high-tech issues, encouraged by a rally in New York stocks on Friday and stability in the currency market. But investors took profits on seeing the limited upside above 14,500 on the Nikkei 225.

Furukawa Electric picked up Y32 to Y532, supported by rising demand for fibre optics. High-tech issues, bought initially, ended mixed. Sony pared early gains to end Y70 up at Y8,520. Toshiba ended Y5 higher at Y768 while Hitachi lost Y20 at Y815.

Securities shares were generally lower on profit-taking. Nomura Securities fell R39 to Y975. However, Kokusai Securities rebounded from early lows to end Y27 higher at Y1,029 on reports that Nomura and its group companies planned to sell their stake.

TAIPEI fell to a 32-month low in weak volume as investors wound down their positions ahead of the nine-day lunar new year holiday which begins next week.

The electronics sector lost 3.3 per cent, although the day's volume was the lowest since January 1997. Brokers said there were clear signs investors were beginning to wind down positions ahead of the break. The weighted index fell 135.53 or 2.3 per cent to 5,862.79.

Winbond, the integrated circuit maker, tumbled T$2.60 or 6.7 per cent to T$36.50.

HONG KONG staged a late turnaround as gains in HSBC offset concerns over the release of Bank of East Asia 1998 results. The Hang Seng Index ended 92.65 higher at 9,599.55 after spending most of the day in negative territory and hitting a low of 9,336.26. Volume was a modest HK$3.5bn.

HSBC put on HK$4 to HK$197 after recovering from a low of HK$192. However, Bank of East Asia, expected to report today a near halving of 1997 net profits, fell 15 cents to HK$10.90.

SEOUL closed higher as institutions went on a buying spree after hints interest rates could fall. The composite index closed 10.24 or 1.8 higher to 581.67.

The rise followed a comment from Chun Chol-hwan, the central bank governor, who said Korea would cut its overnight call rate.